

# **Evaluation of General Budget Support: Synthesis Report**

**IDD and Associates  
May 2006**

**A Joint Evaluation  
of General Budget  
Support 1994-2004**



The Joint Evaluation of General Budget Support is supported and guided by the following organisations and countries, which form its Steering Group:

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Organisation for Economic Co-operation and Development (OECD), DAC	The World Bank	

#### **Governments**

Burkina Faso	Malawi
Mozambique	Nicaragua
Rwanda	Uganda
Vietnam	

# JOINT EVALUATION OF GENERAL BUDGET SUPPORT 1994–2004

*Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam*



## Evaluation of General Budget Support: Synthesis Report

IDD and Associates

May 2006



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## **PREFACE**

The Joint Evaluation of General Budget Support (GBS) was commissioned by a consortium of donor agencies and 7 partner Governments\* under the auspices of the DAC Network on Development Evaluation. The evaluation followed a DFID GBS Evaluability Study which established an Evaluation Framework for GBS. This framework was agreed with DAC Network members in 2003. A Steering Group (SG) and Management Group (MG), both chaired by DFID, were established to coordinate the evaluation. The study was carried out by a consortium of consultants led by the International Development Department, University of Birmingham (IDD).

The purpose of the evaluation was to assess to what extent, and under what circumstances, GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The evaluation identifies evidence, good practice, lessons learned and recommendations for future policies and operations.

This report is based on 7 country level evaluations (Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam). Fieldwork took place between October-December 2004 and May-July 2005.

**This report represents the views of its authors and not necessarily the views of the Steering Group or its members.**

\*The consortium comprised the Governments of Australia, Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Japan, The Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and USA, plus the European Commission (EC), the Japan Bank for International Cooperation (JBIC) and the Inter American Development Bank (IADB), the IMF, OECD/DAC and the World Bank. The evaluation was undertaken in collaboration with the Governments of Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Vietnam, who were also members of the SG. The study was designed to interact closely with aid agencies and with government and other stakeholders at country level. There were government and donor contact points in each country.

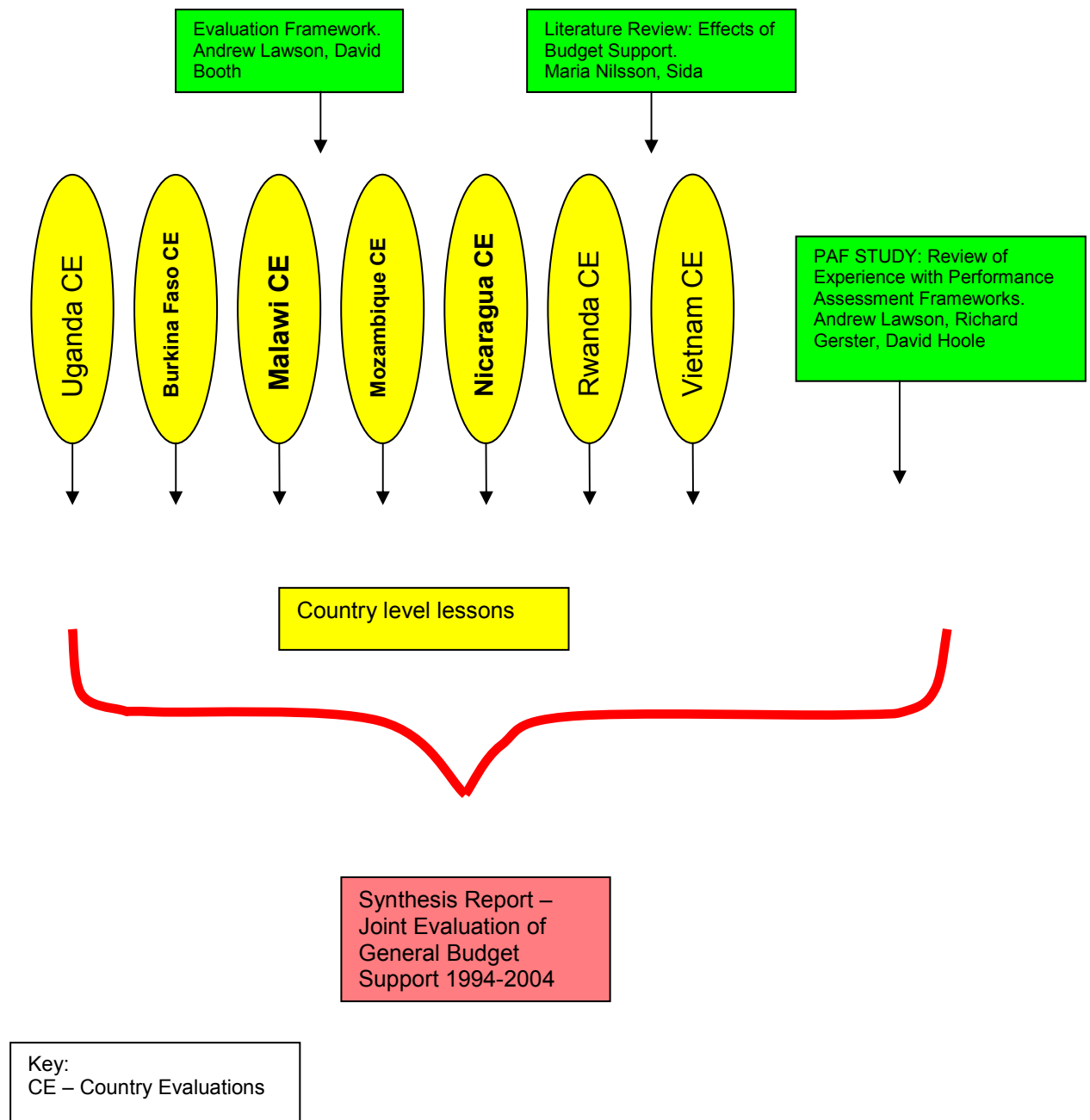
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## Joint Evaluation of General Budget Support 1994-2004

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The Evaluation Framework, Literature Review and PAF Study were contracted separately. The remaining reports were authored by a consortium of consultants led by the International Development Department, University of Birmingham (IDD).

The diagram below shows how the reports in this series fit together:



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Nick York  
Head of DFID Evaluation Department and  
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# Evaluation of General Budget Support SYNTHESIS REPORT

## Contents

<b>Abbreviations and Acronyms</b>	<b>vi</b>
<b>Acknowledgements</b>	<b>ix</b>
<b>EXECUTIVE SUMMARY</b>	<b>S1</b>
<b>1. TERMS OF REFERENCE AND APPROACH</b>	<b>1</b>
Background and Overview of the Study	1
Purpose of the Evaluation	1
Requirements for the Synthesis Report	2
Structure of the Synthesis Report	2
<b>2. EVALUATION METHODOLOGY</b>	<b>5</b>
Introduction	5
The Definition of General Budget Support	5
Basic Definitions	5
The Evaluation Subject: Partnership GBS	7
Origins and Purposes of Partnership GBS	8
Evaluation Methodology	9
Evaluation Challenges	9
Complexity	9
Causality and Attribution	10
Key Features of the Enhanced Evaluation Framework	10
Operationalising the EEF	11
The Causality Map	12
Counterfactuals	15
Status of the EEF and Causality Map	15
Ensuring Cross-County Comparability and Rigour	16
<b>3. PGBS IN THE STUDY COUNTRIES</b>	<b>17</b>
The Study Countries – An Overview	17
Approach to Identifying Partnership GBS	19
Findings: Scope of PGBS in the Study Countries	20
Amounts and Phasing of PGBS	20
Other Relevant Financial Programme Aid	22
Debt Relief and the HIPC Initiative	22
IMF and the PRGF	22
Other Financial Programme Aid	23
PGBS: Additional or Substitute	23
Implications for the Evaluation	25
<b>4. OVERVIEW OF COUNTRY CONCLUSIONS</b>	<b>27</b>
Introduction	27
Burkina Faso	27
Overview of Inputs	27
Overview of Conclusions	27
Malawi	28
Overview of Inputs	28
Overview of Conclusions	28

Mozambique	28
Overview of Inputs	28
Overview of Conclusions	29
Nicaragua	29
Overview of Inputs	29
Overview of Conclusions	29
Rwanda	30
Overview of Inputs	30
Overview of Conclusions	30
Uganda	30
Overview of Inputs	30
Overview of Conclusions	30
Vietnam	31
Overview of Inputs	31
Overview of Conclusions	31
<b>5. EVALUATION FINDINGS AND CONCLUSIONS IN DETAIL</b>	<b>33</b>
Introduction	33
The Main Evaluation Questions	35
EQ1: The Relevance of Partnership GBS	35
Introduction	35
Financial and Other Inputs	35
Design	37
Entry Conditions	38
Objectives and the Nature of "Partnership"	40
Summary: The Relevance of PGBS	41
EQ2: Effects on Harmonisation and Alignment	41
Introduction	41
Policy and System Alignment	41
Harmonisation across Donors and Modalities	42
Summary: Harmonisation and Alignment	43
EQ3: Effects on Public Expenditure	43
Introduction	43
Influence on Levels and Shares of Pro-poor Expenditure	44
Predictability	46
Discretionary Expenditure	47
Efficiency of Expenditure	50
Transaction Costs	51
Summary: Public Expenditure Effects	53
EQ4: Effects on Planning and Budgetary Systems	53
Introduction	53
Ownership and Systemic Strengthening	54
Accountability	55
Capacity Development and the Role of TA	58
Summary: Effects on Planning and Budgetary Systems	58
EQ5: Effects on Policies and Policy Processes	59
Introduction	59
Effects on Policy Processes	60
Effects on Policy Content	62
Policy-based Budgeting	63
Summary: Effects on Policies and Policy Processes	64
EQ6: Effects on Macroeconomic Performance	64
Introduction	64
Fiscal Discipline and Macroeconomic Stability	65
Costs of Budget Finance	66
Effects on Revenue Effort and Private Investment	66
Summary: Effects on Macroeconomic Performance	67
EQ7: Effects on Service Delivery	68
Introduction	68
Pro-poor Public Service Delivery	68

Capacity and Responsiveness of Service Delivery Institutions	69
Summary: Effects on Service Delivery	70
EQ8: Effects on Poverty Reduction	70
Introduction	70
Poverty Dimensions and Data	71
Causality Findings	71
Summary: Effects on Poverty Reduction	72
EQ9: Sustainability of PGBS	73
Introduction	73
Learning, Adjustment and Feedback in PGBS	73
Summary: Sustainability of PGBS	75
Policy Cross-Cutting Issues	75
Policy CCIs in PRSPs and PGBS	75
Synthesis of Causality Findings	83
<b>6. THEMATIC ISSUES</b>	<b>85</b>
Introduction	85
The Uses of PGBS	85
Introduction	85
Distinctive Features	85
Strategic Biases of PGBS	86
Focus on the Expansion of Public Services	86
Bias Against the Private Sector and Growth	88
PGBS and Cross-Cutting Issues	89
Capacity Development	89
Positive Systemic Effects of PGBS	89
The Centrality of Better Public Finance Management	90
Decentralisation	91
Recommendations on Capacity Development	92
The Dangers of Overloading PGBS	92
The Timescale for PGBS	93
Partnership and Conditionality	93
Introduction	93
Donor and Government Interests	93
Conditionality and Performance Assessment	94
The Meanings and Uses of Conditionality	95
Conditionality and Earmarking as Signals	95
Implications for Performance Assessment	96
Implications for Trust, Capacities and Joint Accountability	100
Trust	100
Donor Capacities	100
Government Capacities	101
Implications for Accountability	101
PGBS and Other Aid Modalities	101
Introduction	101
Country Findings on Interaction Between Modalities	102
Government and Donor Preferences on Aid Modalities	103
Government Preferences	103
Donor Preferences	104
Implications	104
Managing Risks	106
Introduction	106
Macroeconomic Conditionality	106
Domestic Revenue and Sustainability	107
Fiduciary Risks and Corruption	107
Assessing and Managing Fiduciary Risks	107
Corruption and Budget Support	108
Political Risks	112
Predictability and Managing Risks	113

<b>7. THE FUTURE OF PGBS: CONCLUSIONS AND RECOMMENDATIONS</b>	<b>117</b>
Introduction	117
The Evaluation in Perspective	117
Assessment of PGBS to date	118
Future Roles for PGBS	119
Introduction	119
In What Country Contexts is PGBS Appropriate?	121
An Incremental Approach to PGBS	121
Guiding Principles and Good Practices for PGBS	122
Summary of Recommendations	124
On the Scope and Focus of PGBS	124
On Capacity Development	124
On the Policies and Strategies It Supports	124
On Performance Assessment and Conditions	125
On Managing Risks	126
On Managing Aid	127
 <b>BIBLIOGRAPHY</b>	 <b>129</b>
 <b>Figures</b>	
Figure 2.1: The Enhanced Evaluation Framework (schematic view)	13
Figure 2.2: Causality Map for the Enhanced Evaluation Framework	14
Figure 3.1: PGBS Per Capita (Total to 2004)	21
 <b>Boxes</b>	
Box 2.1: The DAC Evaluation Criteria	5
Box 2.2: General Definition of Budget Support and GBS	6
Box 2.3: General and Sector Budget Support	6
Box 2.4: Approach to Counterfactuals	15
Box 3.1: PGBS – Additional or Substitute	24
Box 5.1: The Rating System	34
Box 5.2: The Evaluation of GBS in Tanzania	34
Box 5.3: Approaches to Performance Assessment and Conditionality	36
Box 5.4: Ownership	40
Box 5.5: Pro-Poor Expenditures	45
Box 5.6: Dimensions of Predictability	47
Box 5.7: Discretionary and On-Budget Funding	49
Box 5.8: Allocative and Operational Efficiency of Public Expenditure	51
Box 5.9: The Scope of Transaction Costs	52
Box 5.10: The PEFA Criteria for PFM Performance Measurement	54
Box 5.11: Accountability	57
Box 5.12: Shared Learning and Feedback in Mozambique	74
Box 5.13: Visibility of Policy CCIs in PRSPs and PGBS	77
Box 6.1: Paris Declaration (Alignment and Managing for Results)	99
Box 6.2: Sector Basket Funds (Conclusions of the Tanzania Evaluation)	103
Box 6.3: Suggested Roles for Project Aid (from Tanzania GBS Evaluation)	105
Box 6.4: Some Interactions between Aid and Corruption	109
Box 6.5: Implications of Corruption for Poverty Reduction Strategy	111
Box 7.1: Conclusions from the GBS Evaluation in Tanzania	120
Box 7.2: DAC (2005) Guiding Principles and Good Practices for Budget Support	123
 <b>Tables</b>	
Table 3.1: The Study Countries: Population, Income and Aid Levels (2000)	17
Table 3.2: CPIA Performance (Quintiles, 1999 and 2003)	18
Table 3.3: PGBS Flows in Sample Countries	20
Table 3.4: PGBS as share of Total ODA	21
Table 3.5: Donor Participation in PGBS	22

## **ANNEXES**

	<i>Annexes</i>
Annex A: Governance Indicators for the Study Countries	1
Annex B: Summary of Partnership General Budget Support Financial Flows	11
Annex C: Synthesis of Country Report Ratings	25
Annex D: Public Finance Management Assessments	43
Annex E: Synthesis of Causality Findings	51
Annex F: Study Process	73

## **APPENDIX**

	<i>Appendix</i>
Burkina Faso Executive Summary	1
Malawi Executive Summary	11
Mozambique Executive Summary	19
Nicaragua Executive Summary	33
Rwanda Executive Summary	47
Uganda Executive Summary	61
Vietnam Executive Summary	73

## Abbreviations and Acronyms

AAP	Assessment and Action Plan
ACP	African, Caribbean and Pacific
AfDB	African Development Bank
APR	Annual Progress Report
AsDB	Asian Development Bank
BOP	Balance of Payments
CABS	Common Approach to Budget Support [Malawi]
CB	Capacity Building
CCI	Cross-Cutting Issue
CFA	Financial Community of Africa ( <i>Communauté financière d'Afrique</i> )
CGAB	Framework for Budget Support to the PRSP ( <i>Cadre général d'organisation des appuis budgétaires</i> ) [Burkina Faso]
CPIA	Country Policy and Institutional Assessment
CPRGS	Comprehensive Poverty Reduction and Growth Strategy [Vietnam]
CR	Country Report
CUT	Single Treasury Account ( <i>Cuenta Única del Tesoro</i> ) [Nicaragua]
D&HR	Democracy and Human Rights
DAC	Development Assistance Committee (of OECD)
DFID	Department for International Development (UK)
EC	European Commission
EEF	Enhanced Evaluation Framework
EF	Evaluation Framework
EQ	Evaluation Question
ESAF	Enhanced Structural Adjustment Facility
FISE	Emergency Social Investment Fund ( <i>Fondo de Inversión Social de Emergencias</i> ) [Nicaragua]
GBS	General Budget Support
GDP	Gross Domestic Product
GFATM	Global Fund for AIDS, Tuberculosis and Malaria
GNI	Gross National Income
GTZ	German technical cooperation agency ( <i>Gesellschaft für Technische Zusammenarbeit</i> ) (Germany)
H&A	Harmonisation and Alignment
HIPC	Heavily Indebted Poor Countries
HR	Human Resources
IADB	Inter-American Development Bank
IDR	Institute of Rural Development ( <i>Instituto de Desarrollo Rural</i> ) [Nicaragua]
IFI	International Financial Institution
IMF	International Monetary Fund
IMG	International Monitoring Group
IP	International Partner
IR	Inception Report
JFA	Joint Financing Arrangement [Nicaragua]
JR	Joint Review
LM	Line Ministry

M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MFB	Ministry of Finance ( <i>Ministère des Finances et du Budget</i> ) [Burkina Faso]
MFPED	Ministry of Finance, Planning and Economic Development [Uganda]
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MPF	Ministry of Planning and Finance
MPRS	Malawi Poverty Reduction Strategy
MTEF	Medium Term Expenditure Framework
NA	National Assembly
OA	Official Aid
OBL	Organic Budget Law
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PAF	Performance Assessment Framework
PAM	Performance Assessment Matrix
PARPA	Strategy for the Reduction of Absolute Poverty ( <i>Plano de Acção para a Redução da Pobreza Absoluta</i> ) [Mozambique's PRSP]
PAPSE	Programme of Support to the Monitoring of the PRSP ( <i>Programa de Apoyo al Seguimiento de la ERCERP</i> ) [Nicaragua]
PBA	Programme Based Approach
PBS	Planning and Budgetary Systems
PDDEB	Ten year plan for the development of basic education ( <i>Plan décennal de développement de l'éducation de base</i> ) [Burkina Faso]
PE	Public Expenditure
PEAP	Poverty Eradication Action Plan [Uganda]
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Finance Management
PGBS	Partnership General Budget Support
PGAE	Partnership Group on Aid Effectiveness [Vietnam]
PIP	Public Investment Programme
PND	National Development Plan ( <i>Plan Nacional de Desarrollo</i> ) [Nicaragua]
PND-O	Operational National Development Plan ( <i>Plan Nacional de Desarrollo Operativo</i> ) [Nicaragua]
PNDS	National Health Development Programme ( <i>Programme National de Développement Sanitaire</i> ) [Burkina Faso]
PPE	Pro-Poor Expenditure
PRBS	Poverty Reduction Budget Support
PRGB	Programme for Strengthening Budget Management ( <i>Plan d'actions pour le renforcement de la gestion budgétaire</i> ) [Burkina Faso]
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
PSR	Public Sector Reform/Re-configuration
SAF	Structural Adjustment Facility
SAI	Supreme Audit Institution

SBS	Sector Budget Support
SECEP	Secretariat of Strategy and Coordination of the Presidency ( <i>Secretaría de Coordinación y Estrategia de la Presidencia</i> ) [Nicaragua]
seco	State Secretariat for Economic Affairs (Switzerland)
Sida	Swedish International Development Cooperation Agency
SIGFA	Integrated System for Financial Management and Auditing ( <i>Sistema Integrado de Gestión Financiera y Auditoría</i> ) [Nicaragua]
SISTAFE	Integrated System for State Financial Management ( <i>Sistema Integrado de Administração Financeira do Estado</i> ) [Mozambique]
SME	Small and Medium Enterprises
SNIP	National System of Public Investment ( <i>Sistema Nacional de Inversión Pública</i> ) [Nicaragua]
SOE	State Owned Enterprise
SPA	Strategic Partnership with Africa
SR	Synthesis Report
SWAp	Sector Wide Approach
TA	Technical Assistance
TOR	Terms of Reference
UK	United Kingdom
UPE	Universal Primary Education
USAID	United States Agency for International Development
UTRAFE	Technical Unit for Reform of Financial Administration ( <i>Unidade Técnica da Reforma da Administração Financeiro do Estado</i> ) [Mozambique]
VAT	Value Added Tax
VT	Variable Tranche
WAEMU	West African Economic and Monetary Union
WB	World Bank



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The evaluation team has been led by Stephen Lister and coordinated by Rebecca Carter. Participants in various stages of the study have included Gaspard Ahobamuteze, Haroon Akram-Lodhi, Philip Amis, Marco Barassi, Tony Barnett, Ann Bartholomew, Wilson Baryabanoha, Richard Batley, Liv Bjørnstad, Enzo Caputo, Jens Claussen, Amelia Cumbi, Albert de Groot, Simon Delay, Catherine Dom, Marco Ercolani, Alta Fölscher, Paola Gosparini, Charles Harvey, Mike Hubbard, Piet Lanser, Robert Leurs, Adam McCarty, John McGrath, Esther van der Meer, Andrew Nickson, Peter Oates, Lola Dolores Ocón Nuñez, François Orivel, Jean Pierre Ouédraogo, Juliet Pierce, Ray Purcell, Jesper Steffensen, Brian Van Arkadie and Tim Williamson. See Annex F for details of evaluation team responsibilities and affiliations. Amir Naqvi provided voluntary assistance. The evaluation team was assisted by the report production team: Jon Bateman, Kerry Fox, Harry Koutsolioutsos, Philip Lister, Mary Scott and Carol Solley. The study was also supported by the IDD projects office: Olivia Kew-Fickus, Bikramjeet Singh and Carol Solley. The country reports were proofread by: Julian Bates, Jane Carroll, Susan De Villiers and Mary Anne Macdonald. The country report translators were: Nina Caplan, Céline Graciet, Antoinette Martiat, Anne le More, Dimka Stantchev (French), Maria da Luz Prata Dias (Portuguese), Susana Calsamiglia, Helen Soper (Spanish) and Ngoc Nguyen (Vietnamese). Support and quality assurance was provided by Mailan Chiche, Catherine Dom, Céline Graciet, Piet Lanser, Philip Lister (French), Alexandra Chambel-Figueiredo, Amélia Cumbi (Portuguese), Susana Calsamiglia, Mauricio Chamorro (Spanish) and Hong Kim Tran, and staff of the World Bank Vietnam and Mekong Economics Ltd (Vietnamese).

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This report and the supporting country reports have benefited from comments throughout the evaluation process from the Management Group of the GBS Evaluation which at various times has included Kate Tench (Chair), Anders Berlin, Alexandra Chambel-Figueiredo, Nele Degraeuwe, Fred van der Kraaij, Martin van der Linde, Susanna Lundström, Bob Napier, Joe Reid and True Schedvin, and the Steering Group Reference Panel – Geske Dijkstra, Mushtaq Khan and Sam Wangwe. Many others provided helpful comments, wrote background papers and other contributions, and participated in study workshops. A summary of the study process is at Annex F.

However, findings and conclusions found within these reports are those of the evaluation teams and should not be ascribed to any of the agencies that sponsored the study.



## EXECUTIVE SUMMARY

### BACKGROUND AND PURPOSE

S1. General budget support (GBS) has become more prominent since the late 1990s, as part of a wider quest to improve the effectiveness of aid. Funds provided through general budget support are disbursed through the recipient government's own financial management system and are not earmarked for specific uses. However, they are accompanied by various understandings and agreements about the government's development strategy. Instead of focusing narrowly on the use of the aid funds, government and donors together monitor implementation of the agreed strategy as a whole.

S2. This study was commissioned jointly by a large group of bilateral and multilateral donors, together with partner countries, in order to:

.. evaluate to what extent, and under what circumstances (in what country contexts), GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The evaluation should be forward looking and focused on providing lessons learned while also addressing joint donor accountability at the country level. (Terms of Reference, see IDD & Associates 2005)

S3. This synthesis report links findings from seven country case studies, and also draws wider conclusions. The countries studied were: Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam. Full reports on each country are available separately.<sup>1</sup>

S4. The particular focus of this evaluation is on *partnership* general budget support or PGBS. ('New general budget support' and '*poverty reduction* general budget support' are equivalent terms.) PGBS is conceived as a package. Thus, it does not refer simply to financial inputs, but also to associated conditionality, dialogue, technical assistance, harmonisation and alignment. PGBS was an innovation introduced in the latter half of the evaluation period (1994–2004); earlier programme aid experiences are used for comparison.

S5. PGBS was a response to dissatisfaction with the effectiveness of earlier aid instruments. Its origins are closely linked to the HIPC (Heavily Indebted Poor Countries) initiative and to the introduction of Poverty Reduction Strategy Papers (PRSPs) as a focus for collaboration between donors and partner countries.

S6. There is a wide range of expectations from general budget support. These include: improved coordination and harmonisation among donors; alignment with partner country systems and policies; lower transaction costs; higher allocative efficiency of public expenditure; greater predictability of funding; increased effectiveness of the state and public administration as general budget support is aligned with and uses government allocation and financial management systems, and improved domestic accountability through increased focus on the government's own accountability channels.

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<sup>1</sup> A separate evaluation of general budget support in Tanzania, using a similar methodology, also provided useful evidence.

## METHODOLOGY

S7. The evaluation methodology was based on the standard OECD Development Assistance Committee (DAC) evaluation criteria (relevance, efficiency, effectiveness, impact, sustainability), and a logical framework approach to spelling out successive levels of inputs, immediate effects, outputs, outcomes and impacts. This allowed causal assumptions to be spelled out and tested. It drew on a pioneering evaluation framework that had been developed and tested for DFID and the DAC evaluation network. This was further refined in several ways: by addressing entry conditions as level zero, by considering different dimensions poverty impacts, by considering policy as well as institutional and flow-of-funds effects, and of paying special attention to feedback loops within the system. The resulting "enhanced evaluation framework" (EEF) was complemented by a causality map, which illustrated possible causal links in more detail.<sup>2</sup>

S8. The study used the same evaluation instruments and report structure across the study countries so as to maximise comparability. A standard rating system helped ensure that evaluators' assessments were broadly consistent across countries, and similar indicators and approaches to assessment were used whenever practical. PGBS was identified through country-level inventories, which also captured the flows and characteristics of related programme aid.

## PGBS IN THE STUDY COUNTRIES

S9. Flows of PGBS were distributed among the study countries as follows:

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total	%
<b>Total Partnership GBS disbursements (USDm)</b>													
Burkina Faso								82	109	144	165	<b>500</b>	13%
Malawi							58	48	0	14	28	<b>148</b>	4%
Mozambique							30	88	101	154	239	<b>611</b>	16%
Nicaragua									6	8	63	<b>77</b>	2%
Rwanda							14	37	33	34	130	<b>248</b>	6%
Uganda					66	39	176	311	369	405	409	<b>1,775</b>	45%
Vietnam								150	123	140	157	<b>570</b>	15%
<b>Total</b>	-	-	-	-	66	39	277	717	741	899	1,191	<b>3,930</b>	100%
percent of sample	0%	0%	0%	0%	2%	1%	7%	18%	19%	23%	30%	100%	

Source: Summary of PGBS Financial Flows, from Annex B of the main report.

S10. A total of almost USD 4 billion was involved, but most of it late in the evaluation period. Almost half went to Uganda. Four of the other countries (Mozambique, Burkina Faso, Rwanda and Vietnam) had substantial but more recent experience to be evaluated. However, the focus in Malawi was on a false start when PGBS was abruptly suspended. The Nicaragua focus was on preparations for a joint donor programme of PGBS which did not begin until 2005.

S11. The scale of donor collaboration varied. Large donor groups had existed for some time in Uganda and Mozambique; those in Rwanda and Malawi were much smaller. The World Bank and the European Commission (EC) are involved everywhere. The International Monetary Fund (IMF) also plays an important role, with its Poverty Reduction and Growth Facility providing the parallel macroeconomic support. In all cases, the HIPC initiative was a formative influence, since PGBS focuses on the poverty reduction strategies it spawned.

<sup>2</sup> The experience of using the EEF will be reviewed in a *Note on Approach and Methods* to be prepared separately.

S12. A key aspect is whether PGBS has added to total aid or has replaced other forms of aid. This is important when judging appropriate counterfactuals (what would have happened otherwise?) and in identifying its effects at various points in the enhanced evaluation framework. In Uganda, PGBS was associated with a large increase in total aid. In Malawi, PGBS was essentially the replacement of previous balance of payments support which had also provided non-earmarked budget resources. Other countries fell between these extremes.

S13. Judging by the financial amounts, the extent of donor participation and the duration of PGBS experience, there are very different degrees of PGBS penetration among the study countries. There is, therefore, rich variety in the sample, with opportunities to draw lessons from both contrasts and similarities. At the same time, the short history of PGBS in all cases limits the scope for robust findings at outcome and impact level. This is especially so for Malawi and Nicaragua, where PGBS is particularly recent and/or unconsummated.

## **EVALUATION FINDINGS**

### **Overview**

S14. In all but two cases, the overall assessments by the country studies were clearly positive. Malawi's first effort at PGBS got off to a false start, based on over-optimistic expectations concerning macroeconomic discipline. However, there now are signs of regrouping based on the lessons learned. In Nicaragua, significant funds have only recently begun to flow, making it too soon to provide an ex-post assessment. Detailed synthesis findings are linked to the series of main evaluation questions (EQs).

### **EQ1: The Relevance of PGBS**

S15. This evaluation question focuses on the design of PGBS in each country and how well it responds to the specific "entry conditions" found in that country. In all cases, the design was found to be complex and evolving. Donors' decisions to commence PGBS were based on country-specific conditions and not on a pre-conceived set of benchmarks. This applies both to governance standards across countries and to public finance management capacities. There were also variations in how systematically donors considered whether the study countries were "ready" for PGBS, and whether the risks were made explicit. There were many technical analyses of public finance management systems. Assessments of political risks, and their reflection in the design, were less explicit, sometimes leading to later adaptations. For several of the countries, the study found that the political risks of PGBS had been under-estimated, with over-optimistic assumptions about the ability of international partners to influence matters that are deeply rooted in the partner countries' political systems.

S16. A step-change in the nature of dialogue and conditionality is supposed to be a defining characteristic of PGBS. The philosophy behind Poverty Reduction Strategy Papers (PRSPs) is that support for government-owned poverty reduction strategies should replace attempts to impose external solutions through conditionality. In several countries, the PGBS relationship does differ significantly from that which subsisted under structural adjustment programmes. However, the change has tended to be gradual, to be present as an intention before it is realised in practice, and to be more significant in the eyes of the donors than in those of partner governments.

S17. In all cases, PGBS was a relevant response to the context.<sup>3</sup> Moreover, it has evolved and become more relevant over time. Technical assistance/capacity building has been the least well integrated input. The political context has tended to be less well analysed and adapted to than other elements of the context. PGBS is inherently complex to manage, not least because of the variety of international partners, their different interests, and their sometimes unrealistic expectations. PGBS has supported significant changes (towards "partnership") in the relations between governments and international partners, but these should not be exaggerated. PGBS is operating in a wide variety of country contexts, with governments that differ greatly in various dimensions of capacity and governance.

### **EQ2: Effects on Harmonisation and Alignment (H&A)**

S18. This evaluation question considers whether one of the immediate effects of PGBS is to improve harmonisation between donors and alignment between donors and partner governments.

- In all the study countries, PGBS has contributed to greater policy alignment of aid. However, what this actually means depends strongly on the quality and ownership of the government strategies that international partners align with.
- Alignment with government budget cycles is generally improving, with more efforts to align the cycle of PGBS discussions with government budget calendars and to give reliable advance notice of disbursements.
- PGBS is, by definition, disbursed through, and is therefore aligned with, government financial management and procurement systems. With few exceptions, government leadership in aid coordination is rather limited, and full collaboration in the analytical work on which international partners rely is rare. Despite this, PGBS has helped strengthen government–donor collaboration. Management of technical assistance remains almost invariably through projects.
- In every case, the cooperation that PGBS requires amongst international partners has had a positive effect on donor harmonisation. The benefits typically extend to non-PGBS donors and modalities.
- At the same time, PGBS itself is not fully harmonised. Different disbursement arrangements, approaches to conditionality and 'tranching' and so forth are often haphazard, and there is still significant scope for further harmonisation.

S19. At this level, definite effects are apparent in all cases (stronger in Uganda, Mozambique, Rwanda and Burkina Faso, moderate in Vietnam, weaker in Malawi and Nicaragua). In addition to the harmonisation and alignment that is built into donor cooperation in PGBS and its intrinsic use of government systems, there are usually indirect effects influencing the harmonisation and alignment of other modalities. A common finding is that PGBS – and its associated dialogue and review structures – can complement and enhance existing sector mechanisms, often providing forums and instruments to address cross-sector issues.

### **EQ3: Effects on Public Expenditure**

S20. This evaluation question considers the impact of PGBS on public expenditure. It focuses on issues of the prioritisation of expenditure (especially pro-poor spending), the predictability of aid flows, the amount of discretion partner governments have over spending, and the transaction costs of aid.

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<sup>3</sup> The OECD DAC criterion of relevance relates to the match between design and objectives (not the success of the design, which is considered subsequently).

S21. The evaluation's findings on the public expenditure effects of PGBS apply mainly to the five countries where significant PGBS flows have been established.

- (a) PGBS has supported increases in PRSP priority expenditures ("pro-poor expenditures"). However, the definition of what this means is often rather broad and superficial. Improvements in the poverty analysis of public expenditures are required everywhere.
- (b) Short-term predictability of PGBS has been a frequent problem, but mitigating measures are having an effect. There has been less progress in ensuring the medium-term predictability of PGBS (and other aid) in line with the Rome Declaration.
- (c) PGBS has increased the scope of partner government discretion – in some cases dramatically – both by increasing the total of on-budget aid and by reducing the scope of earmarking within the budget. Discretion continues to be limited by the scale of various forms of genuinely earmarked aid.
- (d) Where PGBS has increased discretionary funding, there have been clear gains in allocative and operational efficiency. Non-PGBS modalities have also benefited from some of these efficiency gains.
- (e) Although the high-level negotiation and monitoring costs of PGBS are often perceived as onerous, there are large transaction cost savings for partner countries during the implementation of PGBS-financed activities. However, the extent of transaction cost savings has been limited by the scale on which other modalities have continued in parallel.

#### **EQ4: Effects on Planning and Budgetary Systems**

S22. This question focuses on institutional changes surrounding the key resource management systems. The underlying logic of PGBS is that using government systems helps to improve them. This means that both flow-of-funds effects and the policy and institutional effects created by dialogue, conditionality and technical assistance are relevant here.

S23. PGBS has been an effective instrument in strengthening public finance management, including planning and budgeting:

- (a) The study finds that in all countries where PGBS has an established track record (Malawi and Nicaragua are the exceptions) bringing funds on-budget and supporting their allocation and disbursement through regular Ministry of Finance (or Planning/Finance) channels has strengthened the budget process significantly. An important part of this effect is that sector ministries engage directly in the national budget process, and have less opportunity to circumvent it because of direct relationships with donors. Often, however, the continuation of parallel off-budget aid modalities undermines progress.
- (b) PGBS has helped to improve comprehensiveness and transparency of partner government public finance management, thus strengthening the basis for accountability.
- (c) PGBS donors (indeed all donors) need to be careful that their accountability demands do not overshadow those of national institutions. However, it is possible for national accountability and accountability to donors to be mutually reinforcing.
- (d) PGBS has helped to focus the joint attention of donors, especially those directly involved in PGBS, on the public finance management capacity requirements of governments and national systems. But there is scope for more systematic collaboration to support coherent national public finance management capacity building strategies.

- (e) PGBS has fostered progress in a variety of contexts, in terms of the initial configuration and capacity of public finance management and accountability systems. However, technical solutions are neither effective nor durable without political commitment; and fiscal discipline is a prerequisite for meaningful progress towards results-oriented resource management.

#### **EQ5: Effects on Policies and Policy Processes**

S24. This evaluation question considers the impact of PGBS on broader policy processes. There is inevitably a tension between an international partner strategy of holding back to allow space for domestic policy-making and the urge to promote particular solutions and demonstrate short-term progress. PGBS can affect policy through direct funding incentives, but can also do so through institutional effects and the use of technical assistance. Previous experience suggests that this is one of the most challenging areas for PGBS.

S25. Findings include:

- (a) Donors are actors within policy systems, not just external influences upon them (this is intrinsic to the concept of partnership). Acting judiciously, they can help refine and accelerate reforms for which there are already domestic proponents, but the local political and institutional context is crucial.
- (b) The influence of PGBS on policy processes and policies is intimately connected with the PRSP, and interacts with other aid. Ratings for the study countries strongly suggest that PGBS has been more efficient where it has had greater penetration (by virtue of its duration, relative importance – in terms of money and international partners involved – and the sophistication of dialogue arrangements it supports and uses).
- (c) PGBS can have significant effects through financial empowerment, strengthening incentives within government, improving coherence and coordination among international partners, and complementary technical assistance inputs. It can support policy development across a range of sectors.
- (d) So far, decentralisation has played a minor role in policy dialogue and processes, but PGBS may potentially be a vehicle for involvement of this cross-cutting issue.
- (e) Most of the study countries have far to go in strengthening the systemic links between public expenditure and policies. PGBS can be a strong support to the development of medium-term budgeting frameworks, but these are mostly in their infancy.
- (f) The effects identified in this report are definite (and efficient), but modest (at least in comparison to some expectations). PGBS does not transform underlying political realities (it is unrealistic to expect any form of aid to do so).

#### **EQ6: Effects on Macroeconomic Performance**

S26. This evaluation question considers the impact of PGBS on key macroeconomic issues. These are fiscal discipline, macroeconomic stability, the cost of budget finance, and the impact on domestic revenue effort and the private sector. The main effects here are in response to the flow of funds, but policy dialogue, conditionality and related technical assistance can also play a part.

S27. Given that this is not an econometric study of the impact of aid as a whole, conclusions are limited to judgements on specific effects attributable to PGBS in the study countries during the relatively short period in which it has operated. In general (for the five countries where PGBS has become established):



- (a) PGBS has reinforced pre-existing macroeconomic stability. Flow-of-funds effects are complemented by a degree of reinforcement of the PRGF programmes.
- (b) It has widened international partner involvement in macroeconomic debate.
- (c) It has supported fiscal discipline, by providing funds that are subject to the budget process.
- (d) Effects on both macroeconomic stability and discipline are potentially undermined by unpredictability. The risk may be exacerbated if a growing proportion of aid funds becomes hostage to the same macroeconomic conditionality.
- (e) Apart from limited cases where short-term interest rates were driven up by domestic borrowing to cover shortfalls or delays in PGBS receipts, no obvious "crowding out" effects were found.
- (f) Similarly, and in a context where revenue-strengthening measures are pursued in parallel with PGBS, the study found no obvious diminution of overall tax effort that could be attributed to PGBS.

S28. In Malawi, however, the short-term effect of PGBS was to exacerbate the macroeconomic and fiscal instability that caused PGBS to be suspended.

#### **EQ7: Effects on Service Delivery**

S29. This evaluation question considers effects at outcome level in terms of key aspects of public service delivery. These can be influenced by additional funds, but also by changing policy priorities and improved institutional arrangements.

S30. The most obvious effects of PGBS on service delivery have been through increased expenditure and expanded basic services (especially in education and health). This responded to strong demand for such services. Quantitative improvements (access for more poor people) are easier to achieve than qualitative improvements, and the expansion of basic services has often been accompanied by a deterioration in quality. Other PGBS effects (through policies and, especially, through institutional changes) are likely to take longer in any case. Where such change has begun (e.g. via improved allocative and operational efficiency of public finance management), it is not yet embedded. However, such effects, allied to PGBS dialogue and performance targets, have considerable potential to address issues of quality and access.

#### **EQ8: Effects on Poverty Reduction**

S31. This evaluation question considers effects at impact level, taking into account both the income and non-income aspects of poverty and all three streams of influence (funds, policies, institutions).

S32. Several country teams stressed the fallibility and limitations of available poverty statistics. They cautioned against attempts to seek too mechanical a relationship between PGBS inputs and poverty outcomes, especially in view of the likely lead times for PGBS effects and the potential for exogenous factors to swamp the predicted effects of PGBS.

S33. Study teams could not confidently track distinct (separately identifiable) PGBS effects to the poverty impact level in most countries. This applies more particularly to income poverty and empowerment dimensions. There are some clear links from PGBS to improved basic services, through funding and through a collective commitment of donors and government to service delivery targets.

S34. This agnostic finding largely reflects the difficulties of the data, time-scale and methodology that has been described. It does not mean that PGBS has no effect on poverty, nor that it has less effect than other modalities. Moreover, PGBS as a modality is unique in the way it directly supports national poverty reduction strategies. The strategies that PGBS supports are being refined, partly in response to country experiences of growth and poverty reduction. Therefore the relationship between PGBS and the government impact on poverty is not static: the next evaluation question considers the ability of PGBS to learn from experience.

#### **EQ9: Sustainability of PGBS**

S35. This evaluation question addresses the sustainability of PGBS, focusing on some of the key feedback processes (including monitoring) through which PGBS may be revised and adapted, responding to lessons from experience and to changing contexts.

S36. PGBS needs to be durable, but also adaptable, if it is to perform effectively over the long periods that its intentions require. The enhanced evaluation framework highlights the importance of feedback loops between all levels of the framework, and to all stakeholders. Different stakeholders require different types of feedback for different purposes. The sustainability of PGBS depends not merely on whether PGBS is effective. It also depends on whether, where it is effective, this continues to be recognised by the relevant decision makers. Or, where it is not (adequately) effective, whether there are working feedback mechanisms to promote learning and adaptation. Moreover, PGBS is not self-contained: it is conceived as a support to national poverty reduction strategies. Hence its own monitoring and evaluation should be seen in the wider context of monitoring and evaluation systems for the poverty reduction strategy and for public policy as a whole.

S37. The analysis of PGBS in practice demonstrates that it has, in all cases, been evolutionary in design. It has generally shown, and has needed to show, an ability to learn from experience and adapt accordingly. As yet, there is less reliance on general policy and performance review mechanisms (such as PRSP annual progress reports) and more use made of PGBS-specific reporting than can easily be reconciled with the PGBS goal of supporting national systems. However, there are moves towards convergence (e.g. by linking performance assessment frameworks more closely to national strategy documents). The main threats to continuity and sustainability of PGBS processes are likely to be political.

#### **Policy Cross-Cutting Issues**

S38. For the non-political cross-cutting issues (gender, HIV/AIDS, the environment), findings are that PGBS in Mozambique, Uganda and Vietnam is a useful complementary instrument to other aid modalities, because it coordinates, creates forums for dialogue and makes links across sectors. The Vietnam report notes scope for greater attention to gender, while Mozambique highlights the still weak implementation of reforms. In Rwanda, non-political cross-cutting issues are not explicitly addressed in the PGBS design. This is because other mechanisms appear to be sufficient to ensure issues are adequately addressed (some indicators and measures related to HIV/AIDS and environment, but little gender-specific attention). In Burkina Faso, Malawi and Nicaragua there is, overall, a limited relationship between non-political cross-cutting issues and PGBS, with some specific policy formulation actions or indicators for gender and HIV/AIDS, but not directly for the environment.

S39. In the majority of the case study countries, HIV/AIDS is having large-scale effects with serious long-term implications for development strategy and public expenditure. These long-term issues are badly neglected.

S40. Except in Vietnam, democracy and human rights are included as an underlying principle in memorandums of understanding. These issues are a key risk factor affecting continuation and level of PGBS (most recently in Uganda) and have affected some donors' decisions over suspension (Malawi). In Rwanda, such issues are raised in the context of the overall dialogue and by individual international partners based on bilateral agreements with government. Where a separate governance matrix has been developed, progress is slow (Nicaragua – however, PGBS is still in its formative stage) or donors are not satisfied with quality of dialogue (Uganda) or implementation is weak (Mozambique).

## THEMATIC ISSUES

S41. Issues in the study countries are part of a wider debate. We review a number of thematic issues, drawing principally on the study findings but also on the wider literature.

### The Uses of PGBS

#### *Distinctive features*

S42. Where PGBS has become established, its key features are:

- (a) *Its orientation to the support of nationally-owned poverty reduction strategies.* PGBS offers an exceptionally powerful instrument for focusing both government and international partners' attention on the development and implementation of the poverty reduction strategy.
- (b) *Its orientation towards the strengthening of government capacity* to promote pro-poor development, and its systemic approach – using the systems that need to be strengthened.
- (c) *Its focus on results*, via the links between policy and implementation.
- (d) *Its inevitable concern with public finance management.* This stems immediately from fiduciary concerns about the resources entrusted to national public finance management systems and, more fundamentally, from the budget's role as the key link between policy and implementation.
- (e) *Its explicit intention to improve the quality and effectiveness of aid* – immediately, by advancing harmonisation and alignment; and, more fundamentally, by promoting a virtuous circle in which improvements in the capacity of government and improvements in the quality of aid reinforce one another.

#### *Strategic biases of PGBS*

S43. A forceful critique of PGBS is that it shows a bias towards the expansion of public services without sufficient attention to quality; and that it neglects growth and the development of the private sector on which growth and poverty reduction depend. The study concludes:

- The initial bias towards public service expansion was inevitable, with strong political support on both sides. More attention is now required to the quality of basic public services and, in particular, to their poverty incidence.
- International partners and governments need to move on from simplistic ("pro-poor expenditure") approaches to deeper analysis of sector and sub-sector strategies and their expenditure implications.
- International partners, in particular, need to consider long-term financing strategies for the Millennium Development Goals (MDGs), in terms of their sustainability, their aid-finance requirements, and the appropriate balance of expenditures across sub-sectors.

- There should be more explicit attention paid by governments and international partners to the income poverty and growth implications of public policy and expenditures, and to the ways in which PGBS may complement other modalities in this area.

#### *Cross-Cutting Issues*

S44. There are many examples of complementarities between PGBS and other modalities in addressing cross-cutting issues. Similar considerations apply to other areas that have a cross-cutting character (e.g. private sector development, decentralisation). PGBS is not a substitute for all specialist cross-cutting work, but has potential to assist in cross-sector visibility and mainstreaming, as well as harmonisation across International partners. This is especially so because of the PGBS focus on the national budget and core public policy processes.

#### *PGBS and capacity*

S45. Key findings:

- PGBS can have positive systemic effects on capacity, and it can reinforce the effectiveness of technical assistance.
- Bringing more discretionary resources within the scope of the national planning and budgeting processes strengthens their coherence and quality, and encourages those involved to address policy and efficiency issues more effectively.
- There is much unexploited scope for coherence and coordination in the application of technical assistance related to public finance management; a more strategic approach is required, along the lines of the Development Assistance Committee guidelines for a strengthened approach to public finance management capacity development.
- Effective medium-term expenditure frameworks (or MTEFs) are a key to embedding policy-based budgeting; they need strong support from governments, and from PGBS and other donors.
- More attention is needed to the capacity of local governments (including their public finance management capacity).

#### *The dangers of overloading PGBS*

S46. There are many things that PGBS can (help to) do. But its potential range is itself a risk: that is, there is a serious danger of overloading one instrument, and of expecting it to achieve too many things and too quickly. The appropriate scope and focus of the PGBS instrument can only be decided in country context. In all cases, however, its central role in strengthening public expenditure management should be kept in focus.

#### *The timescale for PGBS*

S47. Its distinctive features and potential uses all highlight the nature of PGBS as a long-term instrument and approach. Capacity development and institutional change require stamina. Moreover, the partnership on which PGBS is premised requires a long-term sustainable relationship, based on trust.

## Partnership and Conditionality

### *Donor and government interests*

S48. Partnership does not require partners to have identical views or interests, but transparency about the interests of the partners is important. Some key points are:

- The PRSP approach embodies a doctrine of partnership, ownership and empowerment; and PGBS is essentially an instrument through which to apply the PRSP approach.
- There is tension between a philosophy of "partner government autonomy" and the reality that, in many cases, poverty reduction is a higher priority for donors than for partner governments.
- Ownership is a valuable concept in understanding why some interventions succeed and are sustained while others do not. But much depends on nuances such as the distribution and depth of ownership on both sides of the relationship. Moreover, government ownership and country ownership are not the same thing.

### *Conditionality and performance assessment*

S49. Simplistic models of conditionality are not helpful in a context where dialogue between government and partners has become very wide-ranging: with discursive debates on policies, mutually agreed targets and mutual assessment of performance. Conditionality cannot (for long) impose donor strategies on unwilling governments. But, in areas where there is an overlap of interests, international partners and (reformers within) governments can work together towards common objectives. Agreed performance targets and conditions then serve as signals (partly to reassure remote financiers that progress is being made and their funds are doing something useful). By prioritising and setting deadlines that have consequences, such "conditionality" creates managerial, not political, pressure. It focuses on the *when* and *how*, not the *what* of reforms. If it works, it helps to maintain the pace of reforms, not to create the will to implement them. That said, there is a spectrum, not a sharp divide, between "old" and "new" conditionality, and different parties disagree about what conditionality is for and how much it has really changed.

S50. Like many "conditions" attached to PGBS, earmarking may serve international partners mainly as a signalling device – transmitting signals to partner governments about international partners' concerns and priorities, and/or to reassure home constituencies about how resources are being used. Notional earmarking and similar signalling devices should be assessed according to their empirical utility, not simply dismissed as theoretically sub-optimal. If adopted, they should be designed so as to minimise transaction costs.

S51. Performance assessment frameworks play a valid role in seeking to operationalise national poverty reduction strategies, although it is important that they converge with national systems. The dangers of micro-management expressed in indicators of intermediate progress are real, and it is certainly important to monitor outcomes. But monitoring outcomes (and impacts) is not a substitute for monitoring all the stages in the results chain. It is important to keep disbursement-linked conditions to a minimum, and ensure that these are genuinely agreed with the government concerned.

### *Implications for trust, capacities and joint accountability*

S52. It is impossible to overlook the role of trust in the adoption of PGBS and its subsequent performance. This has implications for the design of conditionality and mechanisms for dialogue, for the capacities and skills needed on all sides, and for the forms of accountability between the partners.

S53. A partnership approach makes heavy and particular demands on both donor capacities and key partner government staff. Limitations on both donor and government capacities reinforce the need to avoid overloading the PGBS instrument, especially during its early development.

S54. Collaboration in policy development and implementation requires not only mutual accountability for what each party commits to the partnership, but also joint accountability for its results. It would be invidious if international partners, having jointly devised a strategy, were then to penalise a government where the strategy fails to yield jointly-expected results. The onus is on both parties to continue to learn from experience without disincentives to candour. Joint reviews of aid performance against the Paris Declaration benchmarks (and others agreed at country level) offer a good way forward for countries that have not yet established mutual accountability mechanisms.

## **PGBS and Other Aid Modalities**

### *Interactions between modalities*

S55. The terms of reference for this study required an evaluation of PGBS, not a comparative evaluation of different aid modalities. However, interactions between PGBS and other aid instruments are important to understanding its successes and limitations in practice. The following main interactions between PGBS and other aid modalities were found through the country studies:

- (a) In all cases, PGBS had a significant influence on harmonisation and alignment. This influence extended across international partners and aid modalities and contributed to enhanced coherence across modalities.
- (b) PGBS effects on the efficiency of government budgeting had further positive effects on overall allocative efficiency, as flexibility in the allocation of PGBS could be used to offset rigidities in the allocation of earmarked and off-budget aid.
- (c) PGBS also had direct positive effects on other aid through its contributions to operational efficiency. In allowing for a better balance between recurrent and capital expenditure, PGBS can increase the returns to other capital projects. By increasing the discretionary funds available, PGBS made it easier to meet the counterpart funding requirements of projects in their implementation phase.
- (d) The effect of PGBS on promoting greater coherence between sectors, and providing an incentive for policy formulation at sector level, can improve the environment for all forms of aid.
- (e) Dialogue and conditionality linked to PGBS can complement other work on sector and cross-cutting issues and vice versa.
- (f) To the extent that PGBS-related capacity development has strengthened public finance management systems and accountability, it benefits all modalities using those systems and encourages their wider use. In some cases, there was a demonstration effect, with PGBS encouraging other donors to experiment with the use of government systems.
- (g) PGBS has had synergy with project modalities supporting public finance management development, although this has not been exploited to its full potential.
- (h) On the other hand, the potential effects of PGBS – on transaction costs, on budget transparency and on allocative and operational efficiency – were reduced in cases where large flows of aid remained off-budget and/or un-integrated with national planning and budgeting procedures. This is partly because of the continuing direct consequences of modalities running in parallel, and partly because it limits the scale effects of PGBS.

*Government and donor preferences on aid modalities*

S56. Several partner governments are pressing for a larger share of aid to take the form of budget support, but they do not have clear strategies for the appropriate balance between different forms of aid. Donors, too, seem to have paid little attention to this issue, although in practice their strategies are based on achieving a balanced portfolio across interests and instruments, thus spreading risks.

S57. There are interesting moves in several study countries (e.g. Rwanda, Vietnam) towards seeking budget or sector support modalities of more limited scope. There are also positive reasons for these alternative programme-based approaches. They reflect a sense that PGBS is politically vulnerable by virtue of identifying the donor with everything the government does. Donors' ability to explain and justify their PGBS involvement to home constituencies is a crucial determinant of sustainability. This partly explains continuing interest in forms of virtual earmarking, the competing attraction of (earmarked) sector budget support, and some agencies' preference for automatic links between outcome indicators and disbursements.

S58. Potential complementarities between aid modalities are highly significant, but not yet systematically factored into aid management strategies, either at country level or at the level of individual donor portfolios. One consequence is what the Paris Declaration refers to as *the often excessive fragmentation of donor activities at the country and sector levels*. Donors and partner governments, generally and at country level, should develop strategies to optimise complementarities between aid instruments.

## **Managing Risks**

*Macroeconomic conditionality*

S59. A rigid link between PGBS disbursement conditions and the IMF's Poverty Reduction and Growth Facility (PRGF) conditions may cause unnecessary short-term volatility in PGBS flows. The risk is magnified because PGBS brings into the same instrument resources that would otherwise have been disbursed through separate projects or programmes. There are already welcome moves to clarify the IMF signalling role, which will mitigate some of this risk. International partners need also to design a graduated response procedure that takes account of the budgetary purposes of PGBS funding, as well as the macroeconomic implications of its interruption.

*Domestic revenue and sustainability*

S60. For the short period of PGBS disbursement under review, there was no evidence of a reduction in revenue effort in response to PGBS flows. There remains the possibility that an assured flow of PGBS, other things being equal, could lead to a reduction in revenue effort over the long term. But an available response, already in place, is to accompany PGBS with direct measures to strengthen revenue institutions in the assisted countries, and to include revenue performance among the indicators monitored.

*Fiduciary risks and corruption*

S61. Fiduciary risks are commonly defined as the risk that funds are not used for the intended purpose, do not achieve value for money or are not properly accounted for. Corruption is one of the possible sources of fiduciary risk. The channelling of aid funds through government budgets has created more interest in the fiduciary standards of public finance management. Donors are not the only stakeholders who are vulnerable to fiduciary risk in the use of public funds: the partner country's citizens, not least the poor, are the primary victims.

S62. The agencies that participate in PGBS tend to recognise that the comfort associated with separate controls and "ring-fencing" for aid funds has limits. It does not address the fungibility of such support; nor does it address the fiduciary risks to public expenditures as a whole. PGBS donors argue that operating through government systems increases their ability to demand better accountability of all public resources. They address issues of accounting, transparency and audit in the information they demand for monitoring PGBS and public performance in general, in the conditionalities linked to PGBS, and in the technical assistance and capacity building programmes with which it is accompanied. The country case studies confirm that PGBS plays a valuable role in strengthening public finance management.

S63. It is often assumed that budget support is more vulnerable to corruption than other forms of aid but this is not self-evident, not least because its vulnerability is influenced by the safeguards that accompany it. PGBS donors feel a special vulnerability to corruption – and to high profile corruption in particular – because of its potential to erode the trust on which partnership depends and to undermine public support for aid. They seek safeguards at two levels: by monitoring (and seeking to strengthen) the government disbursement and procurement systems through which implementation takes place, and also by monitoring government expenditures at an aggregate level.

S64. Corruption is a serious problem in all the study countries, but the country study teams found no clear evidence that budget support funds were, in practice, more affected by corruption than other forms of aid. Corruption, and anti-corruption measures, have featured explicitly in the performance matrices and prior actions linked to PGBS. Most often, prior actions related to legal measures, policy development and administrative actions, but, even when formally complied with, such measures have not been conspicuously effective. Work on public finance management has been more significant in terms of its practical effect on the environment for corruption. Donors, with PGBS donors very prominent amongst them, have also pursued anti-corruption strategies by complementary means. These have included specific projects and technical assistance to support accountability institutions (audit agencies, parliaments etc), and support to civil society organisations engaged in such issues. It is clearly vital to continue to pursue broad anti-corruption strategies that focus on long-term improvements to country systems as well as short-term safeguards for donor funds. Such strategies should recognise the complementary roles that different aid instruments can play, and the potential for PGBS to contribute to the strengthening of public finance management as a means of limiting the scope for corruption.

#### *Political risk*

S65. There is consensus, reflected in the DAC good practice guidelines, that *political conditionality should not be specifically linked to budget support or any individual aid instrument, but should rather be handled in the context of the overarching policy dialogue between a partner country and its donors*. Nevertheless, experience tends to demonstrate that budget support – and general budget support in particular – is especially vulnerable when there is a political deterioration in relations. This potentially undermines PGBS as a long-term instrument. The apparent special vulnerability of PGBS to political risk is part of a more general issue about predictability and risk management in relation to PGBS.

#### *Predictability and managing risks*

S66. The study's comments on predictability and risk are derived from a perspective of PGBS as an inherently long-term instrument. Useful measures have been taken to address the short-term problems of unpredictability that blighted some early experiences with PGBS. Although useful, these improvements also reflect the inveterately short-term perspective that is built into the way international partners do business. Fine-tuning of the existing instrument may further



improve its efficiency, but will not change its essentially hand-to-mouth character. In line with their commitments to the MDGs and the scaling up of aid, international partners should work with governments to develop genuinely long-term aid instruments that could provide reliable support to the recurrent as well as the capital budgets of partner countries.

S67. There are also practical ways in which more familiar forms of budget support could be made more robust and more attuned to the political environment. Non-earmarked budget support that is linked to a sector dialogue is likely to be less vulnerable to political risk or lapses in the stamina of international partners. Although a proliferation of budget support instruments is undesirable, a modest number of sector-linked instruments could be coordinated with an integrating general support instrument that ensures consistency and adequate attention to central fiduciary and public expenditure management issues. Such alternative designs of budget support should be considered as part of wider reviews of aid strategy and aid modalities at country level.

## **CONCLUSIONS AND RECOMMENDATIONS**

### **The Evaluation in Perspective**

S68. PGBS is not a development programme or strategy in itself, but an approach that aims to support the development strategy of the partner country. The study required evaluation of a moving target, since both the partner strategies and the related PGBS instruments were evolving during the evaluation period. It should not automatically be assumed that PGBS will necessarily always have the effects found in these cases. In the same way, cases where no effect was found should not be generalised to imply that PGBS is necessarily incapable of producing such an effect, or is irrelevant to the issue under consideration. The evaluation pointed out the cases, and the points in the causality chain, where definitive conclusions were not possible – because the time-scale was too short for final evaluation and/or adequate data are lacking.

S69. Many of the difficulties in tracing or attributing the effects of PGBS apply similarly to other modalities and, indeed, to aid in general. Ultimately, PGBS should not be held to a higher (or lower) standard of "proof" than other approaches, modalities and instruments with which it may be compared.

S70. The sample of countries evaluated was limited, and experience with PGBS is relatively recent. This required care in drawing conclusions. However, given the rigour of the methodology, the evaluation team is confident that its conclusions are robust as far as they go.

### **Overall Assessment of PGBS to date**

S71. The variety of designs and contexts requires care when generalising from observed performance. However, the following important findings were clear:

- (a) PGBS has been a relevant response to certain acknowledged problems in aid effectiveness.
- (b) PGBS can be an efficient, effective and sustainable way of supporting national poverty reduction strategies. It played a clearly positive role in five of the seven case study countries (Burkina Faso, Mozambique, Rwanda, Uganda and Vietnam). Subsequent findings about the effectiveness of PGBS are based mainly on the experiences of these five countries. In one country (Nicaragua), PGBS was at so early a stage that it was not possible to draw firm conclusions about its effects. In

another (Malawi), PGBS was not successfully established during the evaluation period.

- (c) Provision of discretionary funds through national budget systems has produced systemic effects on capacity, and particularly capacity for public finance management, that are posited in the evaluation framework. Moreover, these effects are government-wide in nature. PGBS was not a panacea, but it did strengthen government ownership and accountability and, in the short–medium term, there were useful effects on the allocative and operational efficiency of public expenditures (including aid). These in their turn were linked with medium–longer term systemic effects on improving the links between policy and results.
- (d) PGBS tends to enhance the country-level quality of aid as a whole, through its direct and indirect effects on coherence, harmonisation and alignment. This makes PGBS a particularly valuable addition to the array of aid instruments in use. It also highlights the need to employ PGBS as part of a strategy that takes account of the interplay between different aid modalities.
- (e) As regards poverty reduction, it was too soon for the ultimate effects of PGBS inputs during the evaluation period to be manifest. PGBS is a vehicle that assists in implementing a poverty reduction strategy. Its ultimate effectiveness in reducing poverty is bound up with the quality of the poverty reduction strategy that it supports. Given the bias of early poverty reduction strategies towards the expansion of public services, most of the effects of PGBS inputs so far are likely to have been on access to services, rather than income poverty and empowerment of the poor.
- (f) It is important not to overload the PGBS instrument. However, the team found in all cases a capacity to learn from experience, which suggests that PGBS could become more effective, and have a broader scope, over time.
- (g) The evaluation also considered possible unintended effects of PGBS. It did not find evidence of significant crowding-out of private investment nor of the undermining of domestic revenue effort. Malawi's experience showed that PGBS could have a destabilising effect when basic conditions for disbursement are not met; in other countries PGBS design has been improved to limit short-term unpredictability. Corruption can undermine all forms of aid; systemic strengthening of public finance management, which PGBS supports, is an important part of a broad anti-corruption strategy. All of these potential adverse effects, however, also represent risks that need to be taken into account in the design of PGBS (and other aid).
- (h) The evaluation team also found that PGBS, as presently designed, is vulnerable to a number of risks, including political risks. These threaten its ability to operate as a long-term support modality. Its sustainability depends on making it more resilient.
- (i) PGBS is part of a family of programme-based approaches and many of the findings are also relevant to programme-based approaches in general.

### **Future Roles for Partnership GBS**

S72. Deciding whether PGBS is an appropriate modality is not a simple yes/no decision. For any given aid-recipient country, there are also choices about the scope, scale, design and role of any PGBS instrument. A set of rigid prescriptions ("undertake PGBS in such-and-such countries, do not attempt PGBS in such-and-such countries") would be neither justified nor helpful (it would almost certainly exclude some case study countries where PGBS has had positive value). There are many variables that have to be balanced – and some of them may count on both sides of the scale. For example, certain weaknesses in public finance management could simultaneously be a problem that PGBS might help to address and a risk to

PGBS itself. However, there are certain factors about the (potential) partner country, and about the quality of the aid relationship, that will always be relevant.

S73. Partnership requires willing partners. The state (and potential) of aid relationships is key. The partner government must want to engage in PGBS, and must also have a fundamental ability to engage with international partners, and to follow through on its own strategy. There must be basic trust between the potential partners (international partners and governments), and a significant consensus on development strategy (including a broad consensus on patterns and priorities for public expenditure). The competence and status of the planning/finance ministry are crucial. Not least, donors who embark on PGBS should be prepared for a lengthy engagement.

S74. PGBS is more likely to be an attractive option to countries that are significantly aid-dependent. Here the problems met when reconciling large aid flows with healthy development of state institutions are more likely to be serious. This makes more relevant the role of PGBS in increasing the role of budgetary discretion and increasing alignment between government and donors. But significant volumes of PGBS will be problematic unless macroeconomic stability and elementary fiscal discipline have been established.

S75. The greater the capacity of the government (and especially its core planning and budgetary systems), the easier implementation should be. But there is another way of looking at the capacity issue, which is to tailor the scale and ambition of PGBS to an assessment of the initial situation, and to follow an incremental approach which sets the sights higher as (and if) capacity improves. Over time, and depending on performance, PGBS may be scaled up in several dimensions: in volume of funds (including a contribution to the scaling up of total aid flows), as a share of aid resources, and in terms of the policy and sectoral scope of the PGBS dialogue.

S76. The findings from our country studies as a whole do not support the idea that there is a standard evolutionary sequence, in which project aid first gives way to sector programmes (or sector basket funds) before the eventual introduction of unearmarked budget funding. They do support the value of moving to the use of government systems as early and as completely as is practical.

S77. While it is important that such instruments should not proliferate in a random way, there is scope for a limited number of sector-focused and more general PGBS instruments to be mutually reinforcing. Sector-focused budget support instruments should be seen as possible complements to, not a substitute for, general budget support. The more general PGBS instrument (with its associated dialogue and support for capacity development) plays two roles that sector budget support could not provide in isolation: (a) as the focus of support for strengthening overall public finance management, including the budget system; (b) as a force for coherence and alignment across sectors.

S78. The evaluation team broadly endorses the existing OECD Development Assistance Committee's good practice guidelines on budget support. It makes two main additional comments:

- (a) The DAC guidelines imply a stronger discontinuity between general and sector budget support than the study found. Recognition of a spectrum of budget support instruments implies that many of the good practices defined for general budget support will also apply to instruments that are habitually referred to as sector budget support. Alignment and coordination among budget support instruments with different (general/sector) orientations is an important practical issue.

- (b) PGBS needs to be conceived (and developed and managed) as part of strategy which takes explicit account of the interplay between different aid modalities and instruments, seeking to exploit complementarities and tackle dissonance between them.

## LIST OF RECOMMENDATIONS

S79. The study's recommendations are listed below by broad themes. Several recommendations are relevant to more than one theme.

### On the scope and focus of PGBS

#### *Recommendation 1 The adoption and design of PGBS*

- (a) *Follow an incremental approach in introducing PGBS, which may be relevant in a wide variety of contexts.*
- (b) *Follow the general principles and good practices for budget support set out in the OECD DAC guidelines on effective aid, but make allowances for the interaction and overlap between general and sector-focused approaches to budget support.*

#### *Recommendation 2 Scope and focus of PGBS*

- (a) *Take care not to overload PGBS, either with unrealistic objectives or with too many reform tasks. This is especially important during the early, learning phases, of PGBS development.*
- (b) *The appropriate scope and focus of the PGBS instrument can be decided only in the country context. In all cases, however, its central role in strengthening public expenditure management should be kept in focus.*

### On capacity development

#### *Recommendation 3 Capacity development*

*Key directions for capacity development related to PGBS include:*

- (a) *Support capacity development by using government systems; in particular, accelerate moves to bring aid funds on-plan and on-budget.*
- (b) *Recognise the centrality of public finance management reform (medium-term policy-based resource allocation as well as fiduciary management systems) for the development of national capacity to manage for results.*
- (c) *Strengthen the policy analysis, budgeting and expenditure management capacities of line ministries as well as finance ministries, so as to enable more effective planning and budgeting processes within government.*
- (d) *Pay more attention to capacity issues (including public finance management capacity) as they affect local governments.*
- (e) *Seek more alignment around government-led capacity development strategies for public finance management, and for public sector management generally.*

### On the policies and strategies it supports

#### *Recommendation 4 Income poverty and growth*

*Governments and international partners should pay more explicit attention to the income poverty and growth implications of public policy and expenditures, and to the ways in which PGBS may complement other modalities in this area.*

*Recommendation 5 Quality and financing of public services*

- (a) *Governments and international partners should pay more attention to the quality of basic public services and, in particular, to their poverty incidence.*
  - *A first requirement is to learn more – through monitoring of service quality, incidence and uptake (including geographical and social incidence, and the preferences of poor people themselves).*
  - *PGBS and related sector dialogues offer opportunities for governments and international partners to address such issues jointly.*
  - *Programmes to strengthen analysis and monitoring should be designed in a way that increases national and government capacity in these fields.*
- (b) *International partners and governments need to move on from simplistic "pro-poor expenditure" based expenditure allocation approaches to deeper analysis of sector and sub-sector strategies and their expenditure implications.*
  - *Again, programmes aimed at strengthening analysis and monitoring should be designed in a way that increases national and government capacity in these fields.*
- (c) *International partners, in particular, need to consider long-term financing strategies for MDGs, in terms of their sustainability, their aid-finance requirements, and the appropriate balance of expenditures across sub-sectors.*

*Recommendation 6 PGBS and cross-cutting issues*

- (a) *The potential for supporting policy cross-cutting issues through PGBS should be kept under review. Pragmatic considerations mean that different approaches will be taken in different countries and at different times – taking account of the need to avoid overloading the PGBS instrument, the scope for addressing cross-cutting issues through other instruments, and the potential to add value by exploiting complementarities between instruments.*
- (b) *More generally, global initiatives and other vertical programmes should always be integrated with national and sector planning and budgeting.*

**On performance assessment and conditions**

*Recommendation 7 Performance assessment frameworks*

- (a) *Partner governments and donors should implement the Paris Declaration commitments with respect to alignment and managing for results.*
- (b) *Take care that disbursement-linked conditions are kept to a minimum and are genuinely agreed with government.*
- (c) *Ensure that performance assessment systems address all links in the results chain, so as to serve the management and monitoring of the implementation of strategies, as well as the monitoring of results.*
- (d) *Decisions to increase or reduce levels of PGBS support should mainly be based on medium-term assessments of overall performance.*

*Recommendation 8 Signalling the uses of budget support*

- (a) *Virtual earmarking and similar signalling devices should be assessed according to their empirical utility, not simply dismissed as theoretically sub-optimal.*
- (b) *If adopted, they should be designed so as to minimise transaction costs.*
- (c) *Aid agencies should seek common (and mutually consistent) approaches to the sector-attribution of general budget support for reporting purposes.*

## **On managing risks**

### *Recommendation 9 Macroeconomic conditions*

- (a) *Retain the IMF role of monitoring, reporting and advising on macroeconomic performance ...*
- (b) *... but avoid a mechanistic yoking of all PGBS funds to the IMF's own conditions. Design a graduated response procedure that takes account of the budgetary purposes of PGBS funding as well as the macroeconomic implications of interruptions.*

### *Recommendation 10 Revenue mobilisation*

*(Continue to) accompany PGBS with technical support to strengthen revenue agencies and monitor revenue targets.*

### *Recommendation 11 Fiduciary risks and corruption*

- (a) *Fiduciary risks (including corruption) should be assessed from the perspectives of all stakeholders, not just donors.*
- (b) *Common approaches to diagnosis and monitoring of PFM standards (including the PEFA indicators) should be strongly supported.*
- (c) *Decisions about the adoption (and the design) of budget support should be based on a country-level assessment of the balance of potential risks and benefits.*
- (d) *Donors should continue to pursue broad anti-corruption strategies, building on potential complementarities between different aid instruments. Such strategies should take into account the potential for budget support – in conjunction with other aid instruments – to help strengthen public finance management, including procurement, and thereby help limit corruption.*
- (e) *More (shared) research is needed on corruption. Political analysis should encompass work on the drivers of corruption, and this should be complemented by practical work on the ways that corruption affects the poor (e.g. in service delivery).*
- (f) *There should be more attention to public education in aid-giving countries about the whole spectrum of aid agencies' anti-corruption endeavours.*

### *Recommendation 12 Political risk and graduated responses*

- (a) *There should be more systematic analysis of political risk in relation to budget support (and other forms of aid). Such analysis should be shared among donors (including, especially, those preparing joint assistance strategies). The design of budget support instruments should seek to increase the options for graduated responses when political signalling is deemed necessary.*
- (b) *In seeking to reconcile known risks with the needs for long-term funding, international partners should seek to develop genuinely long-term funding instruments, based on the design principles of budget support.*
- (c) *Aid strategy reviews at country level should also consider pragmatic ways of making budget support both more robust and more easily manageable by developing mutually compatible budget support instruments focused on sector or sub-national levels of government.*

## **On managing aid**

### *Recommendation 13 Aid strategies*

- (a) International partners and governments, generally and at country (and sector) level, should develop strategies to optimise complementarities between aid instruments.*
- (b) These should consider, inter alia, the transaction cost implications of existing and proposed configurations, and the available and desirable levels of harmonisation among donors.*
- (c) Aid strategies should include explicit proposals for the use of budget support itself.*

*See also Recommendation 12 (b) and (c) on design of budget support instruments.*

### *Recommendation 14 Management and monitoring of partnerships*

- (a) Donors who engage in PGBS should do so on the basis that it is a long-term endeavour in which both sides need to build up and sustain trust and track records of reliability.*
- (b) Donors engaged in PGBS should increase the in-country discretion afforded to their local offices, strengthen their understanding of local political and administrative detail, and seek greater continuity in staffing.*
- (c) Support to strengthening government systems requires attention to both the supply and demand aspects of capacity; while strengthening the capacity of finance ministries and other central agencies is essential, there needs to be a balance between central and sectoral capacity development.*
- (d) The concepts of mutual accountability and joint accountability are important. Independent monitoring of aid performance (as pioneered in Tanzania) could play an important role, and should incorporate monitoring of the Paris Declaration benchmarks.*





## 1. TERMS OF REFERENCE AND APPROACH

### Background and Overview of the Study

1.1 In the late 1990s, new approaches to budget support and its growing use led to demands for its evaluation. In 2001 the UK's Department for International Development (DFID) began a series of evaluability studies, culminating in a draft framework for the evaluation of general budget support (GBS). In 2003, the process was taken forward by a much wider group of aid agencies and partner countries, linked through the development evaluation network of the OECD's Development Assistance Committee (DAC). A steering group (SG) of all the collaborators was established, along with a smaller management group (MG). Detailed terms of reference were prepared for a full multi-country evaluation of GBS, and the study was eventually launched in August 2004.

1.2 Annex F explains in more detail how the study was conceived, organised, managed and undertaken. It includes a calendar of main events. Inception visits to all the study countries took place between October and December 2004. A first draft inception report was discussed by the steering group in February 2005, and the final inception report was approved in May. The main round of country field visits took place between May and July 2005. Full country reports were reviewed in October 2005. Revised country reports were submitted in January 2006, along with the first draft of this synthesis report. This final version responds to comments on the first draft and also reflects the final revisions to the country reports.

1.3 The study benefited from the workshops organised at key stages (see calendar in Annex F). The later workshops included the participation of MG members and "practitioners" (experienced aid agency representatives and individuals, including members of the SG reference panel), ensuring an element of peer review that was very helpful.

1.4 A separate Note on Approach and Methods will reflect on lessons learnt from carrying out the GBS Evaluation. It is specified as follows:

A note discussing the approaches and methods used in the evaluation and in particular the experiences of using the Evaluation Framework, should be developed at the completion of the evaluation. This note should provide lessons for future evaluations of GBS and feed into the development of GBS. (TOR §6)

### Purpose of the Evaluation

1.5 The full terms of reference (TOR) for the evaluation are annexed to the Inception Report for this study (IDD & Associates 2005). In summary:

The purpose of the evaluation is to evaluate to what extent, and under what circumstances (in what country contexts), GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The evaluation should be forward looking and focused on providing lessons learned while also addressing joint donor accountability at the country level. (TOR §3.1)

1.6 The evaluation was to cover the implementation and the results of GBS during the period 1994–2004 (TOR §3.3). The seven case-study countries are Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam.<sup>4</sup> These were selected as an

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<sup>4</sup> A separate joint evaluation of GBS in Tanzania, using the Evaluation Framework methodology, was conducted during 2004–2005. It preceded the present study and was useful both as a prototype and as a source of comparable evidence from an eighth country. See Booth et al 2004, and (for a concise summary) Lawson et al 2005a.

illustrative rather than representative sample of countries that receive GBS. It was agreed during the inception phase that the particular focus of the evaluation should be on "partnership GBS" ("new GBS" and "poverty reduction GBS" are equivalent terms). In all cases, partnership GBS was an innovation in the latter part of the review period. The study was not required to evaluate the forms of GBS that preceded partnership GBS, but it was expected to use the earlier experiences of programme aid as a point of comparison in assessing partnership GBS.

### Requirements for the Synthesis Report

1.7 The Synthesis Report (SR) is intended to be more than a summary of the country studies. It is required to provide *global lessons and recommendations to donors and partner Governments at both operational and policy levels* (TOR §5.1). It is further described as follows:

The Synthesis Report should be based on the country reports and the thematic reports<sup>5</sup> as well as other relevant documents including the literature review. It is important that the data, findings, conclusions, lessons and recommendations of the country evaluations and the thematic evaluations are effectively used when drafting the synthesis report. The synthesis report should include references to the other reports and clearly account for the evidence on which it is based. Furthermore, the synthesis report should not only summarise the findings of the country evaluations and the thematic evaluations but should add another level of analysis to draw out the more general trends, findings, conclusions, lessons and recommendations about the future use of GBS, both operationally and at the policy level. (TOR §6)

1.8 The terms of reference further specify the report's contents as follows:

The synthesis report should include: an executive summary (which can be published as a standalone summary of the evaluation), introduction and background to the evaluation, the approach and methodology applied (including the causality tree), a description of the development co-operation context, the main findings related to the evaluation issues and themes specified in the inception report, the main overall conclusions and recommendations and lessons learned. (TOR §6)

### Structure of the Synthesis Report

1.9 Our challenge is to remain faithful to the evaluation methodology without anaesthetising the reader. We proceed as follows:

- Section 2: Concise explanation of the methodology.
- Section 3: Overview of the study countries and of the partnership GBS operations identified.
- Section 4: Overview of the main conclusions from the individual country studies.
- Section 5: Evaluation findings and conclusions in detail.
- Section 6: Thematic issues – a series of wider discussions which pursue key themes identified during the country studies.
- Section 7: The Future of PGBS (Conclusions and Recommendations).

1.10 The main text is supported by:

- The Bibliography (see page 129; the introduction to the bibliography explains our conventions in referencing the outputs of this evaluation).

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<sup>5</sup> It was originally envisaged that a series of thematic studies would be commissioned in parallel with the main evaluation. Except for the study of performance assessment frameworks (Lawson et al 2005b), this did not happen, but we have referred to many other current studies and reports (see Bibliography).

- Annexes: these, together with the country reports (CRs), provide detailed supporting evidence for the evaluation's conclusions.
- Appendix: for convenience, the executive summaries of the country reports are also appended to this synthesis report.



## 2. EVALUATION METHODOLOGY

### Introduction

2.1 The study was based on, but was also required to improve, a specially developed evaluation framework (EF<sup>6</sup>). Both the nature of GBS and the purposes for which it is used pose methodological challenges. In this section we consider first the definition of the subject matter, then the objectives for GBS (against which the evaluation has to measure its performance). We then summarise the methodological framework developed and applied by this evaluation.

2.2 The standard OECD DAC evaluation criteria (relevance, efficiency, effectiveness, impact, sustainability) are fundamental (see Box 2.1).

#### Box 2.1: The DAC Evaluation Criteria

The five DAC evaluation criteria are:

- *Effectiveness*: The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.
- *Efficiency*: A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results.
- *Relevance*: The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, global priorities and partners' and donors' policies.
- *Impact*: Positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended.
- *Sustainability*: The continuation of benefits from a development intervention after major development assistance has been completed. The probability of continued long-term benefits. The resilience to risk of the net benefit flows over time.

Source: OECD DAC 2002a (Glossary of Key Terms in Evaluation and Results Based Management).

### The Definition of General Budget Support

#### Basic Definitions

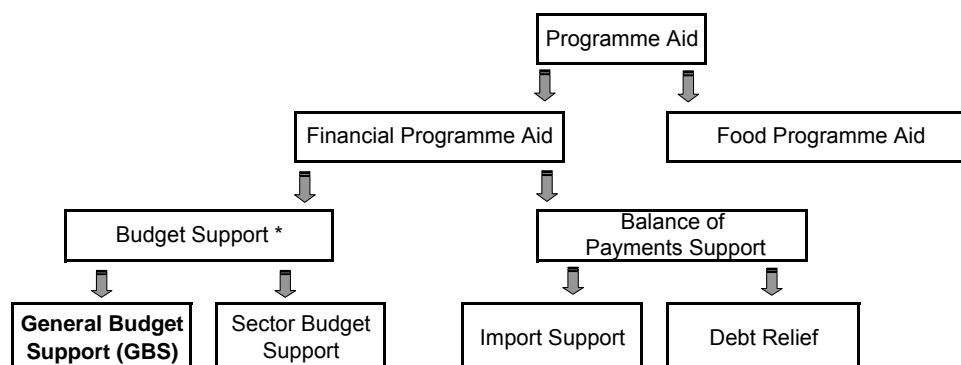
2.3 See Box 2.2 for the location of GBS in the wider context of financial programme aid. The evaluation was required to focus on GBS rather than sector budget support (SBS). In line with the TOR and the Evaluation Framework, this study has distinguished between GBS and SBS on the basis that SBS is earmarked to a particular sector. In practice this turned out to be a less clear-cut distinction than anticipated. Much of what donors characterise as SBS is only notionally earmarked and therefore falls within our definition of GBS (see Box 2.3). In any case, many of the lessons in design and operation of budget support are relevant to both GBS and SBS, and the interaction between GBS and SBS turns out to be an important practical consideration.

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<sup>6</sup> Lawson and Booth, 2004. This is cited as the Evaluation Framework or EF throughout this report. The executive summary of the EF is annexed to the present study's inception report (IDD & Associates 2005).

### Box 2.2: General Definition of Budget Support and GBS

As defined for the purpose of this evaluation, **programme aid** can be divided into food aid and financial programme aid. Financial programme aid includes both budget support and balance of payments support (such as debt relief and import support). Budget support in turn can be divided into sector budget support and general budget support (GBS).



\*Referred to as direct budget support in the *Evaluation Framework*.

The general characteristics of **budget support** are that it is channelled directly to partner governments using their own allocation, procurement and accounting systems, and that it is not linked to specific project activities. All types of budget support include a lump sum transfer of foreign exchange; differences then arise on the extent of earmarking and on the levels and focus of the policy dialogue and conditionality.

**Sector Budget Support** is distinguished from **General Budget Support** by being earmarked to a discrete sector or sectors, with any conditionality relating to these sectors. Additional sector reporting may augment normal government accounting, although the means of disbursement is also based upon government procedures.

Source: TOR and Evaluation Framework. See also IR Annex F (Terminology).

### Box 2.3: General and Sector Budget Support

In this evaluation, we have included notionally earmarked sector budget support as GBS. As discussed below, this is an especially salient point in Uganda, but we have applied the same criteria in all the study countries.

The difference between real and notional earmarking is as follows:

- With *real earmarking* spending on pre-agreed budget lines precedes the disbursement of sector budget support.
- *Notional earmarking* involves justifying the allocation of budget support against pre-agreed budget lines, but disbursement is against a pre-agreed schedule, and not a reimbursement of actual expenditures. (*Virtual* and *notional* earmarking are equivalent terms.)

In Uganda, sector budget support is justified against budget lines in the Poverty Action Fund and in some cases sector expenditure frameworks (e.g. education). However, tranches are released on the basis of successful completion of undertakings in sector reviews, and are not a reimbursement of actual expenditures. Thus sector budget support in Uganda is only notionally earmarked, and we have therefore included it as GBS.

Another example is the EC's education-oriented budget support operation in Nicaragua (PAPSE). The conditions and dialogue for PAPSE focus on the education sector, but the funds themselves are not earmarked, and this therefore falls within this study's definition of General Budget Support.

2.4 The Strategic Partnership with Africa's workshop on sector budget support in Dublin, October 2005 (SPA 2005b), confirmed the overlap between GBS and SBS. It offered a proposed working definition of SBS which is less rigid than the one specified for the present study. It highlighted the difficulty in applying "additionality" as a criterion of SBS. It also provides a useful definition of the distinction between basket-funding and budget support. See quotes (a) – (d) respectively, below:

- (a) GBS and SBS: *The sharp distinction in the DAC General Budget Support Evaluation Framework between General Budget Support (GBS) and SBS is not reflected in donor practice. It is more realistic to describe budget support as a spectrum. At one extreme is GBS with dialogue and conditions focused only on macro and cross-sectoral issues. At the other extreme is SBS focused only on sector-specific issues. In between is GBS with sector conditions and dialogue and those SBS operations which include some macro and cross-cutting conditions and dialogue.*
- (b) Proposed working definition: *The primary purpose of sector budget support (SBS) is to accelerate progress towards the government's sectoral goals. In SBS, donor funds are taken fully into account in the recipient government's planning and budget process, and are transferred into recipient government accounts and blended with domestic resources to be spent according to national procedures. The main (but not necessarily exclusive) focus of monitoring, conditionality and dialogue in SBS is around sector-specific issues.*
- (c) On additionality: *For some but not all donors, it is important to be able to claim that their SBS leads to "additional" spending in the sector or subsector. But additionality is hard to prove when significant shifts in budget allocations towards those sectors/subsectors are anyway taking place, in line with new policy directions (e.g. in the context of Poverty Reduction Strategies).*
- (d) On basket funding: *Regarding the boundary between SBS and sector basket funding, SBS uses the normal national procedures and basket funding typically uses special arrangements negotiated with donors. Basket funding would only count as SBS where money is transferred from the basket into government accounts to be mixed with domestic funding and used according to normal national procedures.*

### **The Evaluation Subject: Partnership GBS**

2.5 This evaluation focuses on GBS as a particular form of programme aid. A defining characteristic of GBS is that it provides unearmarked funds to the government budget, but it is not the only form of programme aid that does so. It is distinguished from these other forms of programme aid by the purposes and the manner of the transfer. The form of GBS which took shape in the late 1990s is variously known as "new GBS", "poverty reduction GBS" and "partnership GBS". We have adopted the latter term as the one that best captures the intended change in aid relationships that this form of GBS embodies. Other types of GBS during the period are not themselves the subject of the evaluation, but are of interest for contextual and comparative purposes.<sup>7</sup> Partnership GBS (PGBS) comprises not only a financial transfer but also a package of complementary inputs: dialogue and conditionality; harmonisation and alignment; and technical assistance and capacity building (TA/CB).

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<sup>7</sup> This narrower focus on Partnership GBS, and hence on the latter part of the evaluation period, was not spelled out in the TOR but was specified during the inception phase.

## Origins and Purposes of Partnership GBS

2.6 The purposes, and the approach to conditionality, of partnership GBS are rooted in perspectives on the role and effectiveness of aid that emerged in the latter half of the 1990s. These derived from the following interacting impulses:

- (a) *Revised assessments of aid effectiveness*, which argued that aid works in good policy environments but that necessary reforms cannot be bought through conditionality (the *Assessing Aid* study [Dollar and Pritchett 1998] was seminal).<sup>8</sup> Hence an emphasis on ownership, and on being more discriminating in allocating aid to countries and governments that are able to use it effectively.
- (b) *Growing concerns for debt relief and a more direct focus on poverty*. Hence the direct link between the Heavily Indebted Poor Countries (HIPC) initiative and Poverty Reduction Strategy Papers (PRSPs), and the focus on the adequacy of government systems to allocate HIPC resources to pro-poor expenditures. Hence also the adoption of the Millennium Development Goals (MDGs). Although debt relief is not formally part of what is being evaluated (see Box 2.2), it was extremely important in developing the PRSP framework for GBS, while, for many bilateral donors, debt relief funding was a direct precursor of GBS.
- (c) *Greater scepticism about standard policy prescriptions and more recognition of differences in country environments*. Allied to the increased concern for ownership, this creates a greater concern for aid to support effective *processes* – not just the particular policies espoused and budgets announced, but the underlying systems for macroeconomic management, planning and budgeting, and associated systems of internal accountability. Again this is epitomised in the PRSP approach.
- (d) *A perception* (also highlighted in the *Assessing Aid* literature) *that inappropriate aid modalities had become part of the problem*. Efforts to bypass weaknesses in government systems were seen to have further weakened them, to have fragmented national decision-making, and to have raised the transaction costs of aid. Hence efforts to support greater coordination and harmonisation of aid reflected, inter alia, in the Comprehensive Development Framework (CDF), work by the OECD DAC, the Strategic Partnership with Africa (SPA) and other bodies on harmonisation and alignment, the trend towards sector wide approaches (SWAs) and the adoption of the principles of programme-based approaches (PBAs).<sup>9</sup> PBA principles (which apply equally to PRSPs, to sector approaches and to lower levels of engagement) embrace ownership, alignment and harmonisation, the use of government systems, and so forth.<sup>10</sup> Concern to disburse aid through government systems increases the focus on the quality of public finance management as well as on sound macroeconomic management.
- (e) An additional factor is *the Monterrey commitment to scale up aid substantially*. In the light of the other concerns cited (harmonisation, ownership, the preferences of recipient governments), and because achieving MDGs may require the financing of recurrent costs, GBS is seen by its advocates as a particularly relevant modality for the channelling of increased aid flows.
- (f) *The aid effectiveness agenda*. High Level Forums (of OECD DAC members and partner countries) were held in Rome (February 2003) and Paris (February–March 2005). They endorsed OECD DAC good practice guidelines on harmonisation and alignment (OECD DAC 2003b, 2005d). The 2005 volume includes good practice guidelines for budget support. The Paris Declaration (High Level Forum 2005a) is

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<sup>8</sup> For an overview of studies on conditionality to which many other scholars also contributed see World Bank 2005e.

<sup>9</sup> See the IR's Annex F (Terminology) for definitions.

<sup>10</sup> As signatories to the Paris Declaration (*Paris Declaration on Aid Effectiveness*, High Level Forum, March 2005) donors have agreed that increased use of PBAs should be adopted as an indicator of progress in harmonisation.



the most recent commitment to improving aid effectiveness, and is linked to measurable performance indicators for both sets of partners (High Level Forum 2005b).

2.7 Altogether, the range of expectations from GBS is extraordinarily wide. Its ultimate objectives may be relatively clear (at its simplest, poverty reduction – though there is not much that is simple about that!), but how this is expected to occur involves a much wider range of expectations. This study's terms of reference draw attention to:

- Improved *coordination* and *harmonisation* among donors and *alignment* with partner country systems (including budget systems and result systems) and policies.
- *Lower transaction costs*.
- *Higher allocative efficiency of public expenditures*.
- *Greater predictability* of funding (to avoid earlier “stop and go” problems of programme aid).
- *Increased effectiveness of the state and public administration* as GBS is aligned with and uses government allocation and financial management systems.
- *Improved domestic accountability* through increased focus on the Government's own accountability channels. (TOR §2.2)

## Evaluation Methodology

### Evaluation Challenges

#### *Complexity*

2.8 The complex nature of PGBS's inputs, in addition to the range of expectations attached to it, makes the evaluation of PGBS very challenging. The joint approach to the evaluation recognises that the different inputs of donors jointly financing PGBS cannot be separately evaluated, but a variety of complications remain (IR ¶3.2):

- (a) The initial inputs are themselves complex – a combination of funds with associated dialogue and conditionality, technical assistance and capacity building, harmonisation and alignment.
- (b) Most of the initial inputs are not discrete (the GBS funds may be clearly and separately identified, but the other inputs are frequently bundled with non-GBS inputs).
- (c) The desired ultimate effects are complex (poverty reduction in a number of dimensions across diverse countries).
- (d) Changes in outcome and impact indicators will be partly (and sometimes dominantly) the effects of other causes (non-GBS inputs, or exogenous factors).
- (e) The chain of causality is a long one, both conceptually and temporally. Following a results chain all the way from inputs to impact is known to be challenging, particularly in moving from outputs to outcomes and impact. In any circumstances, the intervals from inputs and their immediate effects to outputs, outcomes and impacts will be significant. When effects are expected to result from processes of institutional change, the plausible interval for effects to be manifested is longer still. Moreover, results may be such that they are measurable only periodically and with difficulty. This lengthens the interval, in practice, before results can be ascertained. In some cases, moreover, confidence in the reliability of a link from hypothetical causes to observed effects may require repeated observations and evidence that the effect is persistent.
- (f) In the case of GBS, many of the intermediate effects postulated are not in themselves straightforward to measure, let alone to attribute proportionately to multiple causes –

- particularly in a dynamic context where GBS is only one of the influences on systems that are continually changing.
- (g) The logic of causation is often itself controversial (for example, even if it could be demonstrated that GBS leads to the adoption of a particular policy designed to reduce poverty, the appropriateness and efficacy of the policy – either generally or in a particular country context – may well be disputed).
  - (h) Last, but not least, the choice and the construction of appropriate counterfactuals (what would have happened if GBS had not happened?) is both difficult and controversial.<sup>11</sup>

### *Causality and Attribution*

#### 2.9 As the inception report noted:

When causality is complex, the characteristic challenge for an evaluator is that of attribution:

- Can a particular observed effect be attributed to a particular observed cause?
- If so, to what extent? (Is it a major or minor cause? Is it a sufficient or a necessary cause? and so forth.)
- What degree of confidence in the attribution is justified?

The standard approach requires a careful construction of the logic of the programme (this may be variously termed a logical framework, a causality tree, a results chain, a logic chart, etc.). The logic chart spells out what a (project or) programme is trying to achieve, and enables the logic to be systematically (and consistently) tested. Crucially, by spelling out the links in the chain of results, this approach allows the different links to be separately tested. (IR ¶3.4–3.5)

### **Key Features of the Enhanced Evaluation Framework**

2.10 Both the initial EF and the enhanced evaluation framework (EEF) developed during the inception phase adopt a logical framework approach. The EEF is presented schematically in Figure 2.1.

2.11 The EEF elaborates the original EF in the following ways:

- (a) A new "Level 0" is introduced so that design context and entry conditions can be systematically addressed. Relevant factors include:
  - The general criteria that make a particular donor willing to commence (and to persist with) a GBS programme.
  - Specific factors which, from a donor's perspective, make a particular partner government eligible for GBS.
  - Stipulated minimum standards, or the actual situation at entry, may provide a benchmark for later performance evaluation.
  - Feedback to the donor, and to the donor's constituents, will affect the continuity and durability of GBS as a modality.
- (b) There is more recognition in Level 1 (inputs) of parallel inputs, both from donors and from government. It is not intended to expand the scope of evaluation to cover all aid or all government inputs, but there are several reasons to make these inputs more visible:
  - Some are impossible to unbundle (cf. ¶2.8(b) above).
  - Just as it is impractical to separate the effects of different donor inputs, so it may be necessary first to consider the combined effects of GBS and

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<sup>11</sup> See the discussion at ¶2.16 and Box 2.4.

government inputs, before proceeding to attribute (a proportion of) those effects to GBS.

- It highlights the importance of considering the interactions (positive as well as negative) between modalities.
  - It depicts the close link between dialogue and conditionality (it is not helpful to consider formal conditionality in isolation).
- (c) The effects from Levels 2 through 4 (immediate effects/activities, outputs, outcomes) are conceived as three streams, not just two (funds, institutions, and also policies). These are not seen as separate compartments: there are systematic interactions between funds, policies and institutions, as Figure 2.1 depicts. However, explicit inclusion of policy as a causal mechanism helps resolve some of the difficulties in the original EF (for example, that "public actions to address market failures" appeared at Level 4 of the original EF without any real explanation of the intervening transmission mechanism).
- (d) The different poverty dimensions at Level 5 (impact) are unpacked. This recognises that different causal chains may influence some of the different dimensions. Notably, public expenditures may have a direct impact on education, health and other dimensions where government services can play a direct role, while income poverty is less susceptible to such direct effects, and the drivers of empowerment are as much political as economic. The EEF presentation highlights the fact that the different dimensions need to be separately considered.
- (e) Feedback loops (from Level 5 and intervening levels) are depicted. This is consistent with the earlier observation that GBS programmes are characteristically iterative. Special attention should be paid to the systems for monitoring and evaluation (M&E) at each level. Such monitoring is of course an important source of information from which to assess the effects of GBS. More immediately, what is being monitored, by whom, and how, are factors that have a direct bearing on the relevance and sustainability of the design of GBS programmes. Although it is impossible to include a time scale within the diagram (because different intervals apply to different components), systematic attention to the feedback loops will bring this consideration to the fore.

2.12 There is still a parallel set of "external factors/assumptions" as in the original EF, but a lot has been taken out of it and made more explicit.<sup>12</sup>

### **Operationalising the EEF**

2.13 The EEF is operationalised by spelling out the logical framework through the levels. In the inception report, Annex G provided the most comprehensive treatment; this was distilled into (a) a logical sequence of main evaluation questions (IR Annex K), and (b) the causality map at Figure 2.2. The evaluation questions (EQs), tightly linked to the EEF and causality map, provided the common structure for the country reports (and this is echoed in the format of Section 5 below). However, the complexities of PGBS cannot be reduced to a mechanical questionnaire, and it was necessary to complement the tightly specified EQs with systematic consideration of a series of cross-cutting issues.

2.14 The terms of reference required explicit attention to four sets of cross-cutting issues: gender, environment, HIV/AIDS, and democracy and human rights. These are addressed in a specific chapter of each country report (as well as being noted when they are salient in the

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<sup>12</sup> See IR Annex G for a matrix which identifies remaining assumptions at each level.

response to the main evaluation questions). In practice, a number of other cross-cutting issues (CCIs) arose in all cases; these too are systematically discussed in Part C of each country report.<sup>13</sup>

### **The Causality Map**

2.15 Figure 2.2 maps the causality hypotheses implicit in the level-by-level sequence of evaluation questions (IR Annex G) onto the schematic EEF of Figure 2.1. The arrows do not show every possible causal link but are used to highlight what were judged to be the principal ones for investigation. In turn, the key evaluation questions were cross-referenced to particular causality sub-chains depicted in Figure 2.2. The causality map was a guide to the evaluation teams: it was open to them to consider whether other sub-chains, or particular variants within a sub-chain, needed special consideration. Country-level and overall findings against the causality map are presented in detail in Annex E.

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<sup>13</sup> Chapter C1 of each country report deals with the "policy CCIs" (gender, environment, HIV/AIDS and democracy and human rights); Chapter C2 with public and private sector issues; Chapter C3 with government capacity and capacity building (including decentralisation); Chapter C4 with various aspects of partnership; and Chapter C5 with governance and corruption. The cross-cutting discussions in the country reports have fed strongly into the thematic discussions in Section 6 of this synthesis report.

Figure 2.1: The Enhanced Evaluation Framework (schematic view)

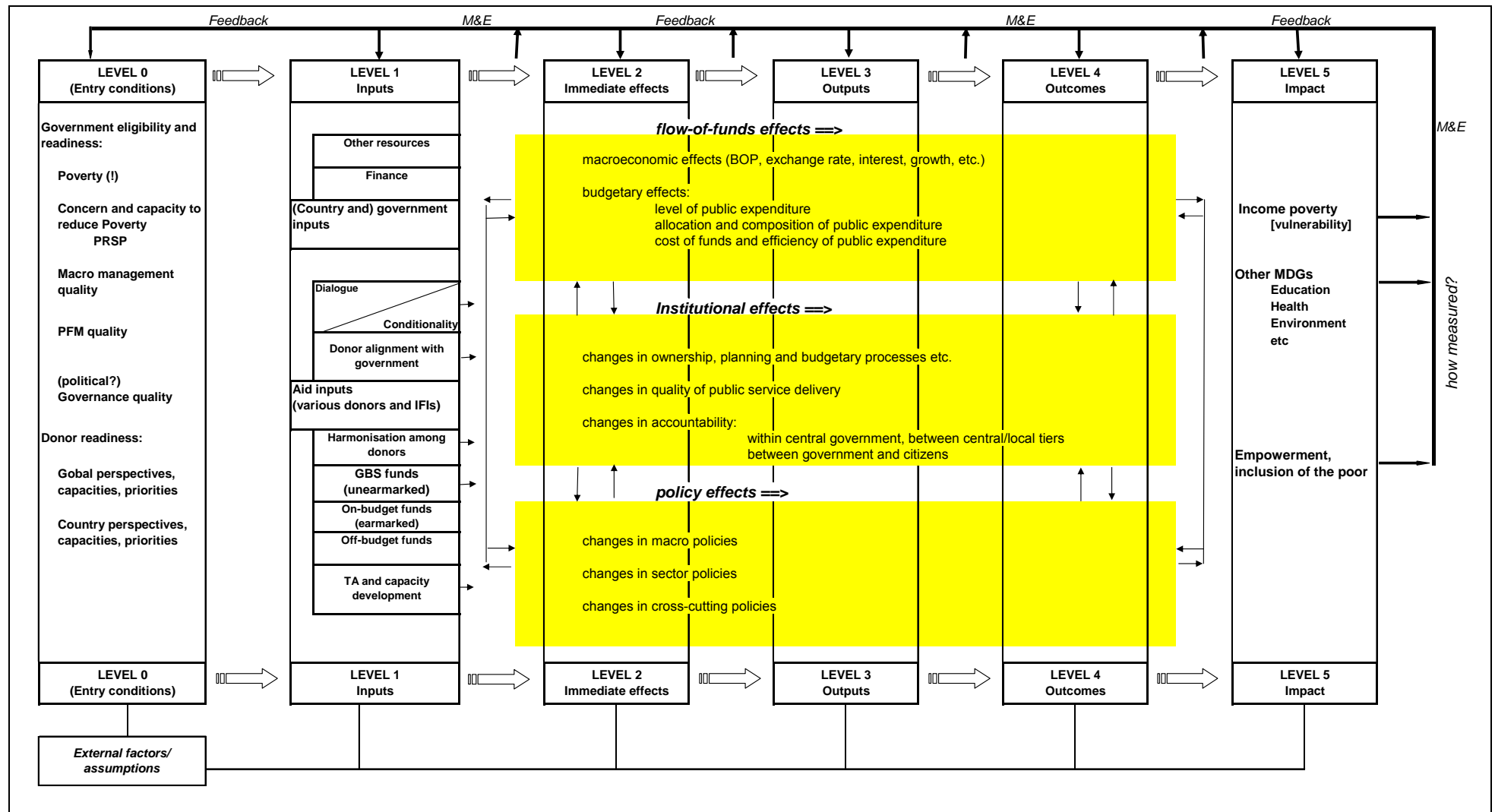
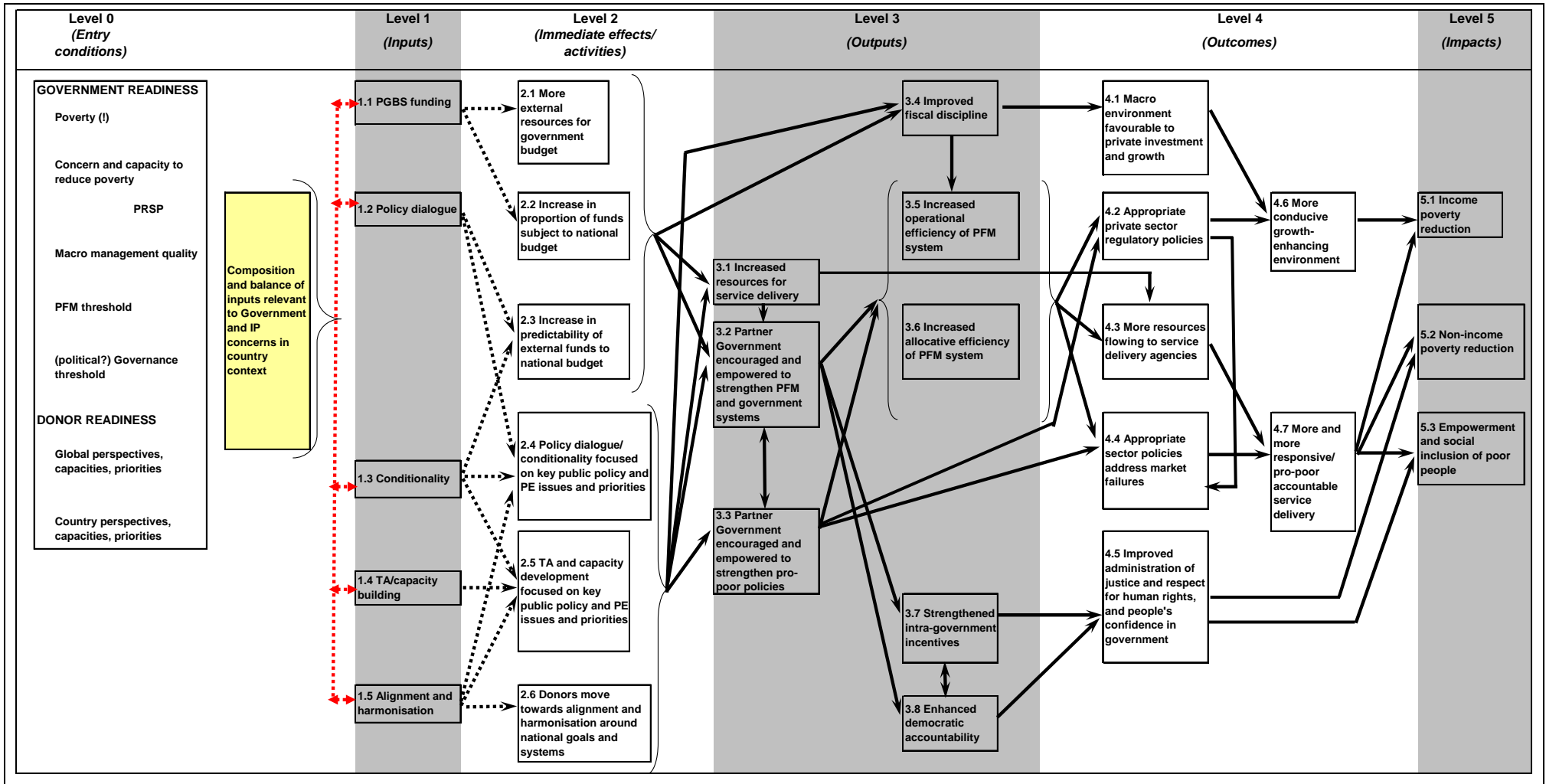


Figure 2.2: Causality Map for the Enhanced Evaluation Framework



### Counterfactuals

2.16 Any evaluation requires consideration of the counterfactual,<sup>14</sup> and the evaluation will be meaningful only if the counterfactual is a relevant one. Box 2.4 sets out the approach to counterfactuals that was agreed at the inception stage and applied during the evaluation.

#### Box 2.4: Approach to Counterfactuals

In the case of GBS, because it is so complex and the evaluation is many-layered, it would be inappropriate to think in terms of a single overall counterfactual. Rather, it is appropriate to consider what is the appropriate counterfactual for each of the sub-enquiries that make up the overall study.

For aggregate flow-of-funds and budgetary effects, it is certainly appropriate to ask if GBS is additional or a substitute for other forms of aid, and frame the counterfactual accordingly. (GBS may be a substitution now but considered as a possible addition in future, in which case both alternatives could be considered.) Of course, deciding what is the appropriate counterfactual, in principle, does not mean necessarily that it is practical to model one in econometric detail. For budgetary effects we should ask – even if we decide we cannot answer – what is the marginal effect of GBS on public expenditure, taking fungibility into account? At the same time, it is important always to consider whether, for the purposes under investigation, GBS is materially different from other forms of aid. (For example, it is not immediately clear, when a macroeconomic effect such as Dutch disease is at issue, that the effects of more GBS should be considered any differently than the effects of the same amount of aid in a different form.) It is important not to stray towards the Herculean task of evaluating aid as such.

For assessing relevance and appropriate design of GBS, we have to take account of donor intentions and rationales: if GBS is put forward as a corrective to certain deficiencies in other forms of aid (high transaction costs, say), then a relevant counterfactual is persistence with those forms of aid, and we have to ask both whether the original diagnosis was correct (previous modality did have the characteristics identified) and whether GBS performs better in the relevant dimensions. In doing so we will pay attention, as already noted, to interactions, both positive and negative, between different forms of aid.

There are also aspects of GBS where the appropriate comparator will be alternative designs of GBS itself. Even here, though, we have already noted that many of the dimensions of GBS are common to GBS and other modalities. As the TOR observe:

The shift to GBS has also resulted in increased attention to key issues of development co-operation such as ownership, partnership, transaction costs, coordination and alignment, which make an evaluation of GBS highly relevant to the development cooperation context in general. (TOR §2.3)

It is highly likely that GBS-specific findings related to such aspects will also be relevant to the choice and design of a wider range of aid instruments.

This approach to counterfactuals was reflected in the guidance on evaluation questions. For each main Evaluation Question in the country reports, a final section summarises the relevant counterfactual considerations.

Source: Adapted from IR ¶3.27–3.31.

### Status of the EEF and Causality Map

2.17 The Enhanced Evaluation Framework is, as its title implies, a framework for enquiry. Together with its elaboration in the causality map, it provides a guideline for systematic investigation. The evaluation tests whether the EEF (in whole or in part) reflects the objectives and expectations of PGBS partners, and whether the hypothesised connections work in practice. Neither the EEF nor the causality map is made redundant if it is discovered that some of the hypothesised causal links are not operating in practice. The experience of using the EEF is reviewed in the Note on Approach and Methods.

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<sup>14</sup> The situation or condition which hypothetically may prevail for individuals, organisations, or groups were there no development intervention. (DAC definition in OECD DAC 2002a.)

## **Ensuring Cross-County Comparability and Rigour**

2.18 As becomes clear in Section 3 below, there is great variety among study countries – both in contexts and in the pattern that PGBS has followed. This provides additional challenges for the evaluation in drawing credible cross-country conclusions.

2.19 Consistency and comparability across diverse country cases were sought by using:

- A standard definition of PGBS.
- A standard report structure for all the country reports.
- Common evaluation questions (EQs) and guidelines on assessment.
- A ratings system for responses to EQs. This is summarised in Box 5.1 (see Section 5 below). It is explained more fully in Annex C, which presents the cross-country comparison of ratings against all the EQs.
- An adaptation of PEFA's<sup>15</sup> performance criteria in assessing public finance management (PFM). This is explained, and cross-country ratings are summarised, in Annex D.
- Other standard indicators where available (e.g. the governance indicators presented in Annex A).
- Standard guidelines on counterfactuals (Box 2.4 above).

2.20 In the end, evaluators have to make balanced judgements. Both in the country reports and in this synthesis, the study teams have tried to present as clearly as possible the evidence on which their judgements are based.

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<sup>15</sup> The Public Expenditure and Financial Accountability (PEFA) Secretariat, based at the World Bank in Washington D.C., coordinates efforts to standardise diagnosis and monitoring of PFM standards. See [www.pefa.org](http://www.pefa.org).



### 3. PGBS IN THE STUDY COUNTRIES

#### The Study Countries – An Overview

3.1 The selection of countries for study was intended to be illustrative, not representative. Important contrasts are apparent in Table 3.1. The most obvious grouping of the case-study countries is that the five African countries represent a relatively homogeneous group in terms of economic and social structure, state of development and patterns of development aid, while Nicaragua and Vietnam are clear outliers. But beyond this starting point there are distinct political and economic contexts by country. While all are classified as ‘poor’ countries, each country has distinct poverty levels and characteristics, and significantly different recent trends in poverty reduction. Each country also has a particular history of aid relationships, and of budget support intent and practice during the period 1994–2004, involving very different levels of experience in partnership GBS (over time, by donor plurality, and by the quantity and relative significance of GBS funds involved).<sup>16</sup> These different country contexts are fully described in Part A of each country report.

**Table 3.1: The Study Countries: Population, Income and Aid Levels (2000)**

	Population (million)	GNI per capita (Atlas USD)	ODA/OA as % GNI (Recipient)
Malawi	10.3	170	26.1
Mozambique	17.7	210	25.4
Burkina Faso	11.3	250	12.9
Rwanda	7.7	260	17.9
Uganda	23.3	270	14.3
Vietnam	78.5	380	5.5
Nicaragua	5.1	740	15.0

Source: OECD DAC international statistics database.

3.2 The capability of governments and the quality of governance are of special interest. PGBS aims to improve both and the initial capacity of government may be a major factor in influencing the choice of PGBS as an aid modality. Table 3.2 shows the study countries' broad ranking against the Country Policy and Institutional Assessment (CPIA) ratings which strongly influence the World Bank's allocation of funds and choice of aid instrument. Uganda was the only sample country in the highest quintile in 1999, but was joined by Vietnam and Nicaragua by 2003. Vietnam showed the biggest improvement, rising from the third quintile. Burkina Faso also improved on the CPIA ranking, but Rwanda remained in the third quintile, and Malawi and Mozambique both slipped to the third quintile.

<sup>16</sup> We also use the term *penetration* as shorthand for these combined dimensions of PGBS experience. See for example ¶3.19 below.

**Table 3.2: CPIA Performance (Quintiles, 1999 and 2003)**

	1999	2003	change
Vietnam	3	1	+2
Nicaragua	2	1	+1
Burkina Faso	3	2	+1
Uganda	1	1	0
Rwanda	3	3	0
Malawi	2	3	-1
Mozambique	2	3	-1
<i>Tanzania</i>	2	1	+1
<p><i>Source:</i> CPIA data cited in Eifert and Gelb 2005.</p> <p>Note: Highest quintile is 1, and positive change denotes improvement. 67 countries are included in the CPIA rankings.</p>			
<p>The performance of IDA countries is assessed annually using the Country Policy and Institutional Assessment (CPIA) tool. The CPIA assesses each IDA country's present policy and institutional framework for fostering poverty reduction, sustainable growth and ability to effectively use development assistance. The system has evolved over time and now comprises 16 criteria grouped in four equally weighted clusters: (i) economic management; (ii) structural policies; (iii) policies for social inclusion and equity; (iv) and public sector management and institutions. To ensure that ratings are consistent with performance within and across regions, (i) detailed questions and definitions are provided to country teams for each of the six rating levels for each of the 16 criteria; and (ii) an institution-wide process of rating and vetting a dozen 'benchmark' countries is carried out to anchor the ratings in all IDA regions. This is followed by a process of institutional review of all country ratings before they are finalized.</p> <p><i>Source:</i> World Bank [2004/2005].</p>			

3.3 The detailed assessments on which the CPIA ratings have been based have not been made public, so we are not able to explore the detailed reasons for changes in overall CPIA rankings.<sup>17</sup> However, the World Bank has published composite governance indicators for 1996, 1998, 2000, 2002 and 2004, covering six areas: government effectiveness, regulatory quality, voice and accountability, political stability and lack of violence, rule of law, and control of corruption. Annex A provides a more detailed review and commentary on country performances against the governance indicators which are published on the World Bank governance web-site. The UK, Botswana and Tanzania are included in the Annex A data as comparators to the study countries.

3.4 "Political stability and violence" is the dimension on which, in relative terms, the sample countries score best, but it is also the one with the greatest range, and the greatest volatility, among the sample. By contrast, the gaps between the UK and Botswana, and between the latter and the "pack" of eight GBS countries are largest in relation to rule of law, corruption<sup>18</sup> and government effectiveness. Another striking point is that Vietnam has among the lowest scores for regulatory quality and for voice and accountability but the highest among the eight GBS countries for government effectiveness.

<sup>17</sup> CPIA ratings are to be made public in future.

<sup>18</sup> For more on the interpretation of corruption indices, see the thematic discussion of corruption in Section 6 below (¶Error! Reference source not found. onwards).

### Approach to Identifying Partnership GBS

3.5 Because of its scale, GBS is inherently lumpy, and there has been a finite set of budget support operations in each of the study countries between 1994–2004. Our approach was to identify them all individually, and to build up a comprehensive inventory for each study country based on programme-level information. (Data held at international level are not satisfactory for this purpose.)

3.6 The resulting inventories appear in Annex 3 of each country report. Apart from the identification of the different international partners involved in each programme and the scale of assistance involved, the inventories seek to capture the following aspects of the programmes: programme intent; alignment with national strategies; disbursement procedures; conditionality and performance indicators; links to technical assistance (TA) and capacity building; procedures for dialogue; donor harmonisation and alignment (H&A); experience in implementation; and sources of evidence.<sup>19</sup>

3.7 Different donors employ different terminology and definitions (partly for presentational reasons). Identifying partnership GBS on the basis of donors' own classifications and programme labels would therefore be treacherous. Furthermore, even with detailed programme-level knowledge, it is difficult to draw sharp distinctions between different types of programme aid and budget support (as shown by the discussion of sector budget support in Section 2 above). In practice there is a spectrum of related aid instruments, and the drawing of sharp boundaries between different types is likely always to be somewhat arbitrary. We therefore deliberately sought to document all forms of budget support, not just what is unambiguously partnership GBS according to the agreed definition.<sup>20</sup> This ensured that all PGBS would be captured and identified according to a standard definition.

3.8 In addition, many of the design elements of partnership GBS also appear both in earlier forms of programme aid and in current co-existing modalities (including programme-based approaches – see Alba and Lavergne 2003a). Even though the focus of the present study is on partnership GBS (PGBS), there is potential for useful insights from comparisons with other forms of programme aid, particularly when considering different design elements (e.g. conditionality, performance indicators) that are common to PGBS and the earlier and other contemporary versions of budget support.

3.9 Building up data at country level is necessary, but a challenge to international comparability. Hence in Annex B we present an internationally standardised overview of PGBS in the study countries. We draw on this as well as the full inventories in the next section, which describes the PGBS identified as the subject of the evaluation.

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<sup>19</sup> See IR Annex E for more detail on the rationale.

<sup>20</sup> See footnote 7 above.

## Findings: Scope of PGBS in the Study Countries

### Amounts and Phasing of PGBS

3.10 PGBS disbursements to the seven study countries are summarised in Table 3.3. Key points to note:

- PGBS disbursements began late in the evaluation period (1998 for Uganda, but 2000 and later for the other countries).
- Nevertheless, there has been a large aggregate aid flow (roughly USD 4 billion).
- But it is very unevenly distributed:
  - over time: heavily weighted towards the later years of the period (53% in 2003 and 2004);
  - between countries: dominated by 45% to Uganda, 15% to Vietnam, 16% to Mozambique, and 13% to Burkina Faso.

**Table 3.3: PGBS Flows in Sample Countries**

Total Partnership GBS disbursements (USDm)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total	%
Burkina Faso								82	109	144	165	500	13%
Malawi							58	48	0	14	28	148	4%
Mozambique							30	88	101	154	239	611	16%
Nicaragua									6	8	63	77	2%
Rwanda							14	37	33	34	130	248	6%
Uganda					66	39	176	311	369	405	409	1,775	45%
Vietnam								150	123	140	157	570	15%
<b>Total</b>	-	-	-	-	66	39	277	717	741	899	1,191	3,930	100%
percent of sample	0%	0%	0%	0%	2%	1%	7%	18%	19%	23%	30%	100%	

Source: see Annex B, Summary of PGBS Financial Flows. Figures may not add to exact totals, due to rounding.

3.11 Table 3.4 and Figure 3.1 address the relative importance of PGBS in each country. Key points include:

- Use of the OECD DAC data for total aid tends to understate the significance of PGBS; local records show PGBS as a significantly higher proportion of aid receipts visible to the recipient governments (e.g. over 50% in Uganda).<sup>21</sup>
- Otherwise, notable features are:
  - PGBS has clearly become very significant in relative as well as absolute terms in Uganda, Rwanda, Burkina Faso, Mozambique.
  - Vietnam is by far the largest country in the sample; it has received a significant share of PGBS to the sample countries, but this represents a relatively small proportion (about 10%) of annual ODA flows to Vietnam.
  - Actual flows are very much less in Malawi and Nicaragua.
- PGBS funding in Uganda (relative to GDP, to public expenditure, and to total ODA) is of a different order of magnitude compared to the rest of the group, and has been at high levels for a much longer period.
- In terms of aggregate aid flows per capita, PGBS has been most significant in Uganda, least significant in Vietnam.

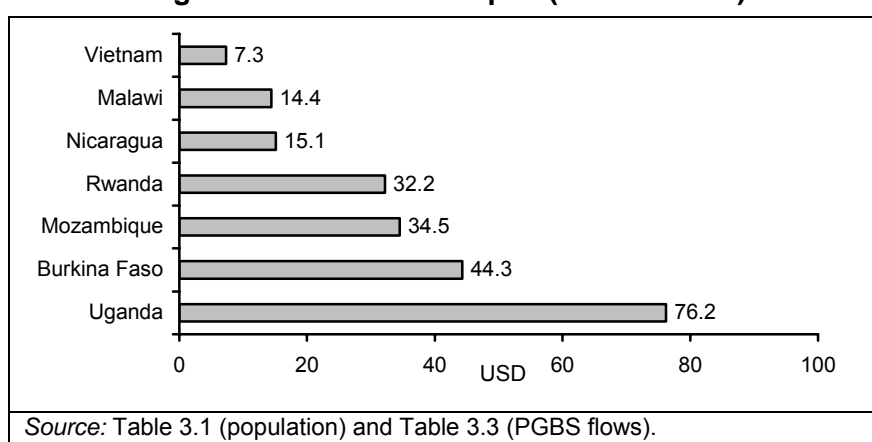
<sup>21</sup> The OECD DAC data classifications for the evaluation period do not separately identify general budget support. Aid recorded by the DAC that does not appear in partner government records may include aid disbursed in kind, or managed directly by the donor (often including technical assistance) and aid disbursed via non-government channels.

**Table 3.4: PGBS as share of Total ODA**

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>PGBS as % of ODA (%)</b>											
<b>Burkina Faso</b>								19%	21%	26%	25%
<b>Malawi</b>							12%	11%	0%	3%	5%
<b>Mozambique</b>							3%	9%	4%	14%	19%
<b>Nicaragua</b>									1%	1%	4%
<b>Rwanda</b>							4%	12%	9%	10%	26%
<b>Uganda</b>					7%	6%	20%	35%	45%	38%	31%
<b>Vietnam</b>								10%	9%	7%	8%

*Note:* These figures are based the study's country-level identification of PGBS, against OECD DAC records of total aid flows; the OECD DAC totals are often higher than aid recorded in-country (see inventories, Annex 3 of CRs). They are presented just to indicate the relative importance of PGBS in different countries.

**Figure 3.1: PGBS Per Capita (Total to 2004)**



3.12 The donors who have disbursed PGBS in the seven study countries (or committed funds for 2005) are shown in Table 3.5.

- Uganda and Mozambique have the most donors involved; there are also big groups for Burkina Faso and Vietnam.
- Rwanda recorded a high volume but from a small number of donors (cf. Tables 3.3 and 3.4 with 3.5).
- Malawi and Nicaragua are again the outliers; a small group was involved in Malawi's stuttering PGBS so far; Nicaragua is in early stages, but a larger group has been assembled around a Joint Financing Arrangement (JFA) agreed in 2005.
- The EC and the World Bank are involved in PGBS everywhere (the WB has not disbursed in Malawi, but a PRSC is in the pipeline).
- Bilateral rows in the table need to be interpreted with care, since not all bilaterals are present in every country. But the UK (DFID) and Sweden (Sida) both have widespread involvement.

3.13 All the PGBS donors use other aid modalities. Many non-PGBS donors participate in non-financial "inputs" to PGBS (e.g. supporting TA, coordination groups, etc.).

**Table 3.5: Donor Participation in PGBS**

(Start Dates)	Total Countries Disbursed In	Disbursed plus 2005 pledges	Burkina Faso	Malawi [3]	Mozambique	Nicaragua	Rwanda	Uganda [3]	Vietnam
AfDB	2		2002					2003	
AsDB	1								2004
Austria	1							2000	
Belgium	3		2002–2003 [4]		2003			1999	
Canada	2	3			2005 (p*)			2001	2004
Denmark	4	5	2005 (i*)	2000–2002 [4]	2001			2003	2002
EC	7		2001	2001	2001	2004	2003	2001	2004
Finland	1	2			2003	2005 (p*)			
France	3		2003		2002			2002	
Germany	3	5	2005 (i*)	2005 (i*)	2004	2005		2002	
Ireland	2				2001			1999	
Italy	2				2004			2004	
Japan	1								2004
Netherlands	4	5	2001		2000	2005 (p*)		1998	2002
Norway	3	4		2000	2000	2005 (p*)		2001	
Portugal	1				2004				
Spain	1				2005				
Sweden	6		2001		2001	2002	2001	2000	2002
Switzerland	2	3	2001		2001	2005 (p*)			
UK	5	6		2000	2000	2005 (p*)	2000	1998	2002
USAID	1							1998	
World Bank	6	7	2001	2005 (i*)	2004	2004	2004	1998	2001
	<b>Total Disbursers</b>		<b>8</b>	<b>4</b>	<b>16</b>	<b>4</b>	<b>4</b>	<b>16</b>	<b>9</b>
	<b>Total Disbursers plus 2005 Pledgers</b>		<b>10</b>	<b>6</b>	<b>17</b>	<b>9</b>	<b>4</b>	<b>16</b>	<b>9</b>

Notes:

[1] 2005(p\*) entries record pledges (not disbursements that were made 2005).

[2] 2005(i\*) entries record intention/discussion of becoming full PGBS donor.

[3] Malawi and Uganda start dates are adapted from country report financial year data.

[4] Both Belgium in Burkina Faso and Denmark in Malawi have a finish date as in both instances they have stopped their disbursement of PGBS.

## Other Relevant Financial Programme Aid

### Debt Relief and the HIPC Initiative

3.14 The summary data in Annex B also show HIPC funds. HIPC debt relief has been important in several ways:

- The PRSP approach spawned by the HIPC initiative has been central to PGBS strategies in all study countries (even Vietnam, which prepared a PRSP despite not qualifying for HIPC relief). In essence, PGBS is a way of supporting and financing PRSPs.
- HIPC relief is itself a form of (irrevocable) budget support. Debates about how to channel HIPC funds to pro-poor expenditure, and associated reviews of the quality of public finance management, were a starting point for PGBS concerns with budget allocation and with systemic capacity building.
- For a number of bilaterals, PGBS was a successor to earlier debt relief programmes which were made redundant by the HIPC initiative.

### IMF and the PRGF

3.15 One country report describes the IMF as the "invisible partner" in PGBS. Funding through its Poverty Reduction and Growth Facility (PRGF) makes the IMF a significant source of ODA in most of the study countries. The PRGF is regarded as balance-of-payments support, disbursed to the central bank, although it often in practice generates unearmarked funding for the government budget. The IMF and PRGF role is directly relevant because PGBS is usually linked, at least in practice, to the macroeconomic conditionality of the PRGF. The PRGF has been an important feature in all the study countries, with the following qualifications:

- In Uganda the government has made limited drawings on the facility, reinforcing the point that its role as a signal or certificate of macroeconomic performance is more important than the funds.
- In both Malawi and Nicaragua, government failure to remain on track with the IMF programme led to interruptions or delays in PGBS.
- In Vietnam, the PRGF was, eventually, terminated because of the government's unwillingness to submit to standard IMF requirements for auditing of foreign exchange reserves. However, this was treated as a technical breach, and PGBS funding was not affected.

#### *Other Financial Programme Aid*

3.16 Annex B shows that there have been substantial amounts of other unearmarked financial programme aid prior to and/or in parallel with PGBS. These occurred in all the countries and are reviewed in more detail in the country inventories. In many cases they are direct comparators for PGBS. They are relevant also to the next issue considered – whether PGBS funding has been additional or has substituted for other forms of aid.

#### **PGBS: Additional or Substitute**

3.17 Has PGBS added to total aid flows or has it replaced other forms of aid? The answer makes a difference to expected effects at various points in the EEF; it is more generally relevant to the choice of appropriate counterfactuals against which to assess PGBS. For several reasons, this is a surprisingly difficult question to answer with confidence. Thus:

- As already noted, records of aid disbursements are often not reliable; moreover, annual fluctuations make it difficult to be certain about trends.
- One of the aims and possible effects of PGBS is to bring more aid on budget,<sup>22</sup> but an increase in the amount of aid that is visible in the budget is not necessarily an increase in the overall aid flow to the country.
- The answers may not be the same at aggregate level as they are for individual donors (an individual donor may provide additional PGBS, say, while aggregate data show no overall increase).
- The answer may be different at commitment and disbursement stages. The Rwanda and Vietnam reports, for example, note that disbursement rates are much higher for PGBS than for projects; this implies significant differences between ex ante and ex post measures of additionality or substitution.
- If PGBS is deemed to have substituted for other aid, rather than increasing the total, we also have to consider whether, or to what extent, it substituted for project aid or for other forms of programme aid.
- Finally, even PGBS that has so far been a substitute may be considered as a vehicle for scaling up later.

3.18 The issue of additionality or substitution is addressed at various points in the country reports. General verdicts, country by country, are summarised in Box 3.1 below. In Uganda, PGBS was associated with a large increase in total aid. In Malawi, PGBS was essentially the replacement of previous balance of payments support which had also provided non-earmarked budget resources. Other countries fell between these extremes.<sup>23</sup>

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<sup>22</sup> See Box 5.7 below for discussion of "on budget" and related concepts.

<sup>23</sup> Whether PGBS adds to the total or share of aid on budget is a related important issue – see the discussion of EQ3 in Section 5 below (¶5.38).

**Box 3.1: PGBS – Additional or Substitute**

**Burkina Faso**

Budget support took the form of PGBS from 2001 onwards, and has been at a substantially higher level than in previous years.<sup>24</sup> PGBS has clearly added to the volume of unearmarked financial programme aid. Other indicators are more ambiguous: some donors (e.g. the European Commission and the World Bank) substituted PGBS for project aid within their portfolio, but there has not been an overall reduction in the volume of project aid. More specifically, PGBS does not seem to have substituted for on-budget project aid during the period of the study. However, this judgement is made against the background of fluctuations in the trends of both PGBS and on-budget project aid.

**Malawi**

The volume of PGBS has varied significantly due to suspensions (Table 3.3 above). The combined volume of PGBS and other unearmarked programme aid, even when PGBS has disbursed, has been less than the annual flows of unearmarked programme aid prior to PGBS. The team concludes that PGBS in Malawi has been essentially a new label for GBS (albeit with an added emphasis during the 2001–2004 period on alignment and harmonisation) following a long history of previous GBS operations.

**Mozambique**

The contribution of PGBS to the state budget increased substantially between 2000 and 2004. However, aggregate aid did not increase over the same period. While some donors (DFID, EC) increased both their aggregate aid and the proportion allocated to PGBS, most donors have substituted PGBS for other modalities, so that at the national level PGBS has been a substitute for other aid flows and not additional.

**Nicaragua**

PGBS disbursements in Nicaragua have been very limited, and PGBS has been mainly provided as a substitute for, rather than additional to, project aid.

**Rwanda**

The total volume of unearmarked programme aid has been rising over the period during which PGBS has been delivered. There is controversy over whether the increased disbursements of PGBS have added to or substituted for project aid. Government informants perceive a degree of substitution as international partners transfer project funding into PGBS. The international partners themselves maintain that, taking account of their staffing constraints, they could not have disbursed an equivalent volume through projects. Given the much higher disbursement rate for PGBS compared with projects, the issue may turn on whether it is viewed in terms of commitment or disbursement profiles.

**Uganda**

PGBS has displaced (or absorbed) previous forms of unearmarked programme aid, while, during the evaluation period, there was a large absolute and relative increase in programme aid. However, the level of project financing stagnated rather than declining, so that displacement of project finance by PGBS took place at the level of individual donors and sectors, but not at the level of aggregate aid financing. More recently there have been increases in project volume.

**Vietnam**

PGBS in Vietnam has been judged to represent a moderate increase in total aid funding, but a much more significant increase in the level and proportion of aid funds on-budget. Off-budget funding is dominated by projects, for which, in aggregate, PGBS has been a substitute.

<sup>24</sup> In 1994 and 1995 there were exceptionally large volumes of fast-disbursing programme aid to help Burkina Faso cope with the CFA franc devaluation (see Annex B, Table 1). This comparison for PGBS is with the more normal years from 1997 onwards.



### **Implications for the Evaluation**

3.19 Taking duration, amounts and donor participation together, there are very different degrees of penetration of PGBS among the study countries. This means that there is rich variety among the sample, with opportunities to draw lessons from inter-country contrasts as well as similarities. At the same time, the short history of PGBS in all cases limits the scope for robust findings at outcome and impact level. This is especially so for the two countries (Malawi and Nicaragua) where PGBS is particularly recent and/or unconsummated, although these countries can still add depth to our understanding of the initial stages of PGBS.



## 4. OVERVIEW OF COUNTRY CONCLUSIONS

### Introduction

4.1 The evaluation distinguishes between *findings* (facts), *conclusions* (interpretation of the facts, drawing on the judgement of the evaluators), and *recommendations* (reasoned advice based on the evaluation findings and conclusions).<sup>25</sup> In this section we provide a "snapshot" of the evaluation's conclusions from each of the study countries.<sup>26</sup> Section 5 then describes the findings in detail, using the template provided by the EEF. In line with the Terms of Reference, the evaluation aimed to assess the results derived from the resources applied through PGBS; it was not an attempt to consider the relative merits of different aid modalities. In all cases, however, it was clear that the interplay between aid modalities was a significant factor in the success or otherwise of PGBS. This theme, among others, is further addressed in Section 6.

4.2 An overall assessment has to consider effects at all levels of the EEF and take into account the alternative uses of PGBS resources. The overall assessments by the country study teams were clearly positive except in two cases. Malawi's first effort at PGBS was a false start based on over-optimistic expectations concerning macroeconomic discipline, but there are signs of regrouping, drawing on the lessons learned. In Nicaragua, significant funds have only recently begun to flow and it is therefore too soon to provide an ex post assessment (promising signs in terms of harmonisation and alignment effects are noted, but so are risks, including risks related to the political and institutional environment of Nicaragua). We note below the dimensions of PGBS<sup>27</sup> and the main conclusions drawn per country. The final section of each country report explains the conclusions much more fully. In Section 5 below we review findings and conclusions for all study countries against the main evaluation questions.

### Burkina Faso

#### Overview of Inputs

4.3 The first PGBS funds were disbursed in 2001 and by 2004 there were seven donors disbursing PGBS: AfDB, EC, France, the Netherlands, Sweden, Switzerland and the World Bank (Belgium stopped disbursing PGBS after 2003). Between 2001 and 2004 PGBS funding increased, representing a level of additional resources equivalent to 25–30% of the government's own annual resources and one third of the total on-budget ODA. Some donors have substituted PGBS for project aid within their portfolio, but there has not been an overall reduction in the volume of project aid.

#### Overview of Conclusions

4.4 PGBS has clearly increased government ownership and has strengthened government-donor collaboration in support of the national poverty reduction strategy by building on the pilot testing of "new conditionality". The joint performance assessment matrix is an innovative attempt to build a common results-based monitoring system. GBS has proven a feasible, attractive modality for effective aid coordination but there is scope for improving complementarity between PGBS and sector-specific support. PGBS has strengthened the

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<sup>25</sup> See IR, ¶3.3.

<sup>26</sup> The full Executive Summaries from the country reports are an Appendix to this report.

<sup>27</sup> Data on inputs in this section are based on the country level inventories of programme aid; there may be discrepancies between some of these figures and the internationally standardised data used in Section 3 above (see ¶3.5–¶3.9). The most robust available data are used for each country, but this means that the indicators used are not necessarily identical across countries.

overall policy processes but the functioning of the policy dialogue structures needs to be further improved. PGBS has reinforced existing policies, but not (yet) contributed to major improvements or new policies. The PGBS focus on the government's framework for public finance management (PFM) reforms has been a strong asset contributing to the strengthening of PFM, but the reform process is still far from complete, especially at departmental and decentralised levels. Direct effects of PGBS on macroeconomic performance were limited since other instruments were already in place. Combined flows of PGBS and HIPC resources have allowed increased supply of basic services; however, it is difficult to measure the extent to which spending patterns in education and health are pro-poor due to the limitations of the current budget classification and weaknesses in programme budgeting. PGBS has had an impact on poverty reduction related to living conditions through the improvement in the delivery of basic services. Its overall impact on income poverty has been modest, and mainly indirect by supporting general economic growth and macroeconomic policy. Impacts on empowerment and social inclusion are not yet very visible, but the processes under way are mainly long-term.

## **Malawi**

### **Overview of Inputs**

4.5 The first PGBS funds were disbursed in 2000 and in 2004 there were three donors disbursing PGBS in Malawi: the EC, Norway and the UK (Denmark withdrew in 2002). With Sweden these donors form the Common Approach to Budget Support (CABS) group. Between 2000 and 2004, PGBS volumes varied significantly due to suspensions when agreed fiscal targets were not met. PGBS flows were equivalent to 5–10% of government expenditure in 2000/01 and 2% in 2003/04. At its peak, in 2000/01, PGBS constituted approximately 12% of total ODA. The combined volume of PGBS and other unearmarked programme aid, even when PGBS has disbursed, has been less than the annual flows of unearmarked programme aid prior to PGBS.

### **Overview of Conclusions**

4.6 Ownership of pro-poor strategies has been weak. As with other aid to Malawi, PGBS donors have sought to use conditionality as a substitute for ownership but with little success. Enforcing conditions by suspending PGBS necessarily seriously limited the financial benefits of the aid modality in terms of predictability, discretionary spending and transaction costs, and resulted in severe macroeconomic problems. Neither disbursement nor suspension of PGBS served as an effective incentive for changes in terms of policy reform and content during the evaluation period (although it may have influenced the subsequent government's approach). To date PGBS has not brought about a significant change in Malawi's relatively weak planning and budgeting systems. Given the problems with PGBS in Malawi, no contribution was found to improving government performance in public service delivery, and no tangible effects on poverty reduction could have been expected. On the positive side, PGBS reinforced other causal factors promoting harmonisation and alignment. Although the first effort at PGBS in Malawi was a false start, there are signs of regrouping, drawing on lessons learned.

## **Mozambique**

### **Overview of Inputs**

4.7 The first PGBS funds were disbursed in 2000 and by 2004 there were 15 donors disbursing PGBS: Belgium, Denmark, the EC, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Sweden, Switzerland, the UK and the World Bank. Between 2000 and 2004, PGBS funding increased significantly, from 3% of net ODA in 2000 to about 19% in 2004; as a share of the government budget it rose from about 3% in 2000 to 17% in

2004. A donor–government common framework agreement was signed in 2000 and a new Memorandum of Understanding was signed in 2004. PGBS has not been a vehicle for an expansion of the total volume of aid (except for some individual donors), but it has substantially increased the resources that are on-budget.

#### **Overview of Conclusions**

4.8 This has been a very successful case of donor–government collaboration; the organisation of the partnership between international partners and government is clear, flexible, inclusive and robust and, although initially weak, government ownership is strengthening. There is increasing alignment with government policies and systems and PGBS has created an effective system for aid coordination. However, TA and capacity-building remain the least harmonised and aligned element of PGBS. PGBS has developed a strong forum for dialogue with government on policy priorities and the common Performance Assessment Framework (PAF) helps in targeting priority objectives. PGBS is strengthening the planning and coordination process between 'core government' and line ministries. PGBS has so far had a moderately positive effect on the efficiency of public expenditures, and enables a better balance between recurrent and capital expenditure. At the same time the territorial distribution of the budget remains very skewed. Uncertain aid disbursement has been the main alignment problem; this is now mainly an in-year rather than inter-year problem. PGBS has had a small positive effect on service delivery mainly by adding collective pressure in support of sector priorities. It is likely to have a longer-term positive effect through the development of systems and supply of more predictable (recurrent) funding. PGBS's effect on income and non-income poverty and the empowerment of poor people is, so far, small but positive.

### **Nicaragua**

#### **Overview of Inputs**

4.9 The first PGBS funds were disbursed in 2002 and in 2004 there were three donors disbursing PGBS: the European Commission, Sweden and the World Bank. Between 2002 and 2004, PGBS funding increased from about 1% of total ODA to about 11%. PGBS funds in 2004 were equivalent to about 5% of central government expenditure. PGBS has had little effect on total external aid since it has mainly substituted for project aid. The Joint Financing Arrangement (JFA) signed in May 2005 increased the number of PGBS donors to nine, with funds committed totalling 15% of total ODA, but there were delays in commencing support under the JFA.

#### **Overview of Conclusions**

4.10 Since PGBS funds have only just begun to flow in Nicaragua, it is too soon to provide an ex post assessment but the country report provides an analysis of the development of PGBS and its prospects. While PGBS moves in the direction of partnership and greater country ownership, the current version of Nicaragua's PRSP<sup>28</sup> provides a limited basis for country ownership; this means that the international partners, in practice, take a leading role in defining targets and conditions. Promising signs for harmonisation and alignment effects are noted, as PGBS represents an improvement of the donor coordination and harmonisation process (already started with the HIPC initiative). However, linking PGBS conditions to the PRGF conditions of the IMF, although logical, reinforces the government's perception that conditionality has not changed much and makes the IMF an "invisible partner" in PGBS. There has not been sufficient attention to the government's absorptive capacity for reforms and the TA approach still shows a short-term perspective in its support to the reform process. Political and institutional

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<sup>28</sup> The National Development Plan (PND – *Plan Nacional de Desarrollo*).

risks are the least well addressed so far in the evolving PGBS design. As noted, it is too soon to expect a discernible PGBS impact on poverty in Nicaragua.

## **Rwanda**

### **Overview of Inputs**

4.11 The first PGBS funds for Rwanda were disbursed in 2000. In 2004 four donors were disbursing PGBS: the EC, Sweden, the UK and the World Bank. PGBS funding has fluctuated, but overall has increased from about 4% of total ODA in 2000 to about 10% in 2003, and an exceptional 26% in 2004. In this period, PGBS funds varied between 12% and 48% of government current expenditures. There is controversy as to whether the increased disbursements of PGBS have added to or substituted for project aid. Government informants perceive a degree of substitution as donors transfer project funding into PGBS. The donors themselves maintain that, taking account of their staffing constraints, they could not have disbursed an equivalent volume through projects.

### **Overview of Conclusions**

4.12 While not the driving factor, PGBS played an actively supportive role in enhancing harmonisation and alignment. Conditionality is the least harmonised input, and this has implications in terms of uncertainty of PGBS disbursements for the government. PGBS has played a significant role in improving public finance management systems: PGBS technical assistance and policy dialogue in particular have made a strong contribution to PFM system development, and more generally to the systemic capacity of government. There were generally positive flow-of-funds effects on the volume and efficiency of public expenditures. However, limitations on the pro-poor nature of priority expenditure have implications for PGBS influence on public expenditure outcomes. This detracts from the pro-poor nature of service delivery and the effect of PGBS on this. On balance, taking account of both flow-of-funds and other effects, PGBS has had a positive effect on the non-income dimensions of poverty reduction. The public action strategies which PGBS supports have only recently begun to focus more directly on growth and income poverty reduction. A key sustainability issue is the political nature of aid and PGBS in particular, considering Rwanda's geopolitical situation.

## **Uganda**

### **Overview of Inputs**

4.13 The first PGBS funds were disbursed in 1998 and in 2004 there were 13 donors disbursing PGBS: Austria, Canada, Denmark, the EC, France, Germany, Ireland, Italy, Netherlands, Norway, Sweden, the UK and the World Bank. Between 2000 and 2003 there was a large absolute and relative increase in programme aid with an increasing number of donors using budget support as part of their aid portfolios and a stagnation of funds given as project support. Programme aid reached, and remains at, well over 50% of on-budget aid flows. PGBS funding has risen to a level of about 25% of central government expenditure, while combined increases in programme aid amounted to 31% of the real increases in total public expenditures between 1997/98 and 2003/04.

### **Overview of Conclusions**

4.14 With an exceptional degree of government initiative, and beginning with a home-grown poverty reduction strategy, PGBS has been a powerful support to the strengthening of planning and financial management and to the expansion of service delivery (including support to decentralisation). A relative and absolute shift to PGBS, far larger in scale and duration than in the other evaluation countries, contributed significantly to increased alignment with government

objectives and more use of government systems for implementation. On balance, dialogue and conditions relating to PGBS have had a positive role in refining policy and providing impetus for reforms, while the success of policy reforms has relied on a coalition of interest between the presidency, the Ministry of Planning and Finance (MFPED) and donors. PGBS has improved allocative and operational efficiency and reduced transaction costs for the government. TA/CB inputs are the least well specified, and have been poorly oriented towards building systemic capacity. PGBS has had a strong effect on the level and share of pro-poor expenditures. The major contribution of PGBS to poverty reduction has been through the expansion of basic services, although the quality of services is weak. The effects of PGBS on income poverty have been far weaker, and indirect, through facilitating macroeconomic stability which in turn fosters growth. The early bias towards social services limited the scope for addressing income generation and pro-poor growth. There is a significant record of reflection and learning, and a convergence between government and IP approaches to performance assessment. However, it appears that early diagnoses of governance were over-optimistic. Weakening political ownership, combined with concerns about political transition and corruption, is making it increasingly difficult for international partners to justify PGBS to their domestic constituents (as evidenced by recent cut-backs in support).

## **Vietnam**

### **Overview of Inputs**

4.15 The World Bank-led Poverty Reduction Support Credit (PRSC) is the only current instrument that constitutes PGBS. The first PRSC funds were disbursed in 2001 with three co-financiers. In 2004 the World Bank was joined by seven PRSC co-financiers – AsDB, Canada, Denmark, the EC, Japan, the Netherlands and the UK. The PRSC has constituted between 7% and 10% of total ODA during the period 2001–2004. In 2004, PRSC funding was about 14% of central government expenditure. PGBS in Vietnam has been judged to represent a moderate increase in total aid funding, but a much more significant increase in the level and proportion of aid funds on-budget, and in the discretionary funds available to government. Off-budget funding is dominated by projects, for which, in aggregate, PGBS has been a substitute.

### **Overview of Conclusions**

4.16 The PRSC in Vietnam has been backing a winner – demonstrating the effectiveness of PGBS when there is already a good track record on poverty reduction and macroeconomic management. PGBS represents a shift in aid management relations which are now based more on partnership principles. PGBS has been an effective method of achieving alignment with government policies and has enhanced aid coordination. The emphasis of PGBS is to influence the content of policy rather than impose policies themselves. PGBS provides a mechanism to engage in high-level policy dialogue with the government and provides an incentive to keep reforms on track. The flow-of-funds effects are found in supporting pro-poor expenditures and in funding the implementation of policy actions while financing the budget deficit. However, the main impacts are not from flow-of-funds effects, but from institutional effects due to the implementation of budget-related policy actions included in the PRSC policy matrix. The main effect of PGBS has been on non-income poverty, with only weak effects on income poverty reduction and empowerment of the poor.





## **5. EVALUATION FINDINGS AND CONCLUSIONS IN DETAIL**

### **Introduction**

5.1 This section reviews findings and conclusions from the country studies in more detail. It follows the same pattern as the seven country reports (CRs), by addressing the series of main evaluation questions (EQs) which provide the structure for the core section of each CR (see Part B in each case). Echoing the CR approach, this section concentrates on presenting and explaining findings and conclusions; recommendations emerge from the later thematic discussions (Sections 6 and 7).

5.2 The EQs follow through the levels of the Enhanced Evaluation Framework (EEF); at each stage the standard OECD DAC evaluation criteria (relevance, efficiency, effectiveness, impacts, sustainability – see Box 2.1) are applied, and the logic is tested through a series of sub-questions that are standardised across all countries.<sup>29</sup> The questions are systematic but inevitably they remain complex; the evaluators were required to exercise professional judgement in the context of their familiarity with both the country and the subject matter (taking account of the relevant evidence and sources identified in the inception report). In order to maximise rigour in approach and consistency across countries, a rating system was adopted. This is briefly described in Box 5.1 below, and the full cross-country comparison of ratings is set out in Annex C.

5.3 Many important thematic issues, inevitably, cut across the EQs. In the CRs the response to EQs (Part B) is followed by a structured review of cross-cutting issues (CCIs, Part C) before the summary assessment and recommendations (Part D). We adopt a similar approach for this Synthesis Report. In the present section we proceed systematically through the EQs, flagging wider issues that emerge as we do so. This is followed by (a) an overview of how the "policy CCIs" (gender, HIV/AIDS, environment, and democracy and human rights) feature in the PGBS discourse, and (b) a review of the causality findings. This lays the ground for the thematic discussion of issues in Section 6.

5.4 The EEF has been applied systematically to the seven country cases in our Terms of Reference. During 2004 a separate evaluation of GBS in Tanzania was undertaken, following the original Evaluation Framework (see Box 5.2 below). This provides additional evidence on many of the issues we consider, but does not systematically address the precise EQs set out in the EEF. In this section, we occasionally refer to findings from the Tanzania study where they are especially relevant and comparable with ours; we draw on it further for the thematic discussions in later sections.

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<sup>29</sup> See Annex K of the IR. A few questions were modified for clarification as the evaluation proceeded. The Note on Approach and Methods will explain.

### Box 5.1: The Rating System

Key features of the rating system:

- A set of over-arching key Evaluation Questions provides an organising framework for the ratings.
- The ultimate task against each EQ and sub-question (evaluation criterion) is the need to identify the effect of PGBS (see earlier discussion of causality and attribution).
- For each sub-query the ratings demand a logical series of considerations that help the evaluators to distinguish between:
  - the background situation in the country concerned (a trend is also indicated);
  - the efficiency of PGBS as an influence on this aspect of the situation;
  - the effect of PGBS on the situation.
- The evaluation system also indicates the degree of confidence in each finding.
- The same simple scale (strong/moderate/weak) is applied throughout; finer gradations have been deliberately avoided, to avoid spurious precision.
- It allows for the possibility that a particular effect is not found, negligible or not applicable in a particular case.
- Cross-country consistency (aided by the cross-membership of teams, the overview of subject specialists, etc) was also cross checked against the Causality Map (see Annex E).
- The ratings are not the primary output of the evaluation. They were useful in systematising thought during the evaluation, and in checking that assessments across countries are broadly consistent. However, it is neither possible nor desirable to reduce qualitative issues entirely to quantitative judgements. The ratings are only an adjunct to the text.
- Hence, in each country report, the discussion of sub-questions is preceded by a review of relevant facts, and followed, for each main EQ, by a review of overall causality findings and a discussion of possible counterfactuals.

For fuller explanation and the full set of cross-country rating comparisons, with commentary, see Annex C.

### Box 5.2: The Evaluation of GBS in Tanzania

An evaluation of GBS in Tanzania, using the original Evaluation Framework, was carried out by the Tanzania government and budget support donors in 2004. The full report of the study is Booth et al (2004). An extended briefing paper (Lawson et al 2005a) provides a comprehensive summary of its findings.

The study reviews the period 1995–2004 – the two terms of the Mkapa presidency, during which the Ministry of Finance has become stronger and more capable.

"Poverty Reduction Budget Support" (PRBS) has been provided since 2000/01. By 2004 GBS was being provided to Tanzania by 14 donors; together with HIPC debt relief it contributed 20% of public expenditure, and expected disbursements in 2004/05 were USD 400m, but was still not a dominant aid modality.

Impetus for a new approach to aid came from an independent study (Helleiner et al 1995, known as the Helleiner report) which was highly critical of both government and donors and called for stronger government leadership.

Distinctive features of PRBS in Tanzania include:

- A context of rapid growth in total aid flows to Tanzania.
- Much use of common-basket funds (the Tanzania evaluation was specifically asked to compare GBS with basket funds as one of the counterfactuals).
- A common Performance Assessment Framework, which has incorporated a number of different approaches to assessment and disbursement.
- Assessments of aid by an Independent Monitoring Group (IMG) every two years; it reports to both the government and donors.

## The Main Evaluation Questions

### EQ1: The Relevance of Partnership GBS<sup>30</sup>

*How does the evolving PGBS design respond to the specific conditions, strengths and weaknesses of the country, to government priorities and to the priorities and principles of the international partners?*

#### *Introduction*

5.5 The starting point for the evaluation is to establish what is being evaluated, and against what objectives. We comment in turn on: the various PGBS inputs; the design of PGBS; the context (entry conditions) in which PGBS has been undertaken; and the nature of the "partnership" that it embodies.

#### *Financial and Other Inputs*

5.6 As already noted (¶2.8), the inputs of PGBS comprise not only finance but also associated dialogue and conditionality, harmonisation and alignment, and TA/CB. The definition of PGBS has been addressed (Box 2.2 and associated discussion), and the **financial inputs** per country are summarised in Annex B and discussed in Chapter 3 above (see ¶3.10 onwards).

5.7 The country-level inventories (¶3.5–¶3.6 above) also address the non-financial inputs of PGBS, but this is more tricky than identifying the funds. Dialogue, conditionality, harmonisation and alignment "inputs" are less tangible and less discrete: they are often shared with other instruments and modalities. Assigning TA and capacity building inputs to the PGBS package is also difficult.

5.8 In all cases the **dialogue** that relates to PGBS is closely connected to a broader framework for dialogue at country level, usually centred on the PRSP or its equivalent. In some cases (e.g. Uganda, Mozambique, Rwanda) the two are more or less co-extensive; in others (e.g. Vietnam, Malawi) the budget support dialogue has been more self-contained, though it is always interconnected with wider forums and timetables for consultation between partner government and donors (in Vietnam, donors have seen the PRSC dialogue as a valuable deepening of their already extensive engagement with the government). Of course, the formal dialogue is supplemented by informal interactions, which are more difficult to observe but not necessarily less important as channels of influence.<sup>31</sup>

5.9 The structure of dialogue is often formalised in memorandums of understanding (MOUs), which may also describe part of the **conditionality** associated with PGBS – more particularly the part that relates to underlying principles (including political concerns) and basic requirements (e.g. adequate macroeconomic management and pursuit of poverty reduction). There have been several experiences of actual or threatened interruptions to budget support on account of political factors not spelt out in advance (e.g. in Uganda, Rwanda, Mozambique). These have prompted efforts to make understandings more explicit (in MOUs, also in the Uganda governance matrix for example) but the issue remains a controversial one (to which we return in Section 6 – see ¶6.40 onwards). However, the specific (and continually updated) menu of conditions attached to PGBS is usually found in a performance matrix (see Box 5.3). The PRSC matrix dominates in Vietnam, where all PGBS takes the form of PRSC co-finance, and in

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<sup>30</sup> Note that the OECD DAC criterion of relevance (see Box 2.1 above) relates to the match between design and objectives (not the success of the design, which is considered subsequently).

<sup>31</sup> We are not referring exclusively to donors' influences on governments; influences of governments (and other national stakeholders) on donors, and of donors on each other are also important.

Uganda, where it forms the centrepiece of dialogue and conditionality although there are dozens of separate PGBS instruments. Elsewhere various forms of joint Performance Assessment Framework (PAF) have been developed.<sup>32</sup>

### Box 5.3: Approaches to Performance Assessment and Conditionality

The logic of PGBS implies that the performance assessments used by donors should be aligned with those of the government. Where the focus of alignment is a PRSP, the Annual Progress Report (APR) might be expected to serve this function. In practice (with the partial exception of Uganda), donors have not found it practical to rely on APRs. The most fundamental reason for this is that APRs tend to reflect the first-generation PRSP concentration on outcome and impact indicators, which are necessarily long-term and do not provide annual indications of progress that can be linked to disbursement. Hence the development of performance assessment frameworks (PAFs) linked to PGBS (and subsequent efforts to link them back into enhanced national systems of performance monitoring).

Discussion of PAFs is coloured by the fact that they may have two distinct (and not always compatible) purposes: (a) to enable all partners to monitor progress and adjust policy and implementation as required; (b) more specifically to provide a basis for disbursement decisions by donors.

The thematic study of performance assessment frameworks and GBS (Lawson et al 2005b) identifies four main approaches to GBS performance assessment, corresponding to the approaches of the European Commission, the World Bank, the IMF and the bilateral development agencies:

- (a) the use of a differentiated response mechanism, involving a virtually guaranteed fixed tranche and a variable tranche whose value is determined by performance in relation to quantitative performance indicators at outcome level (EC);
- (b) the reliance on IMF analysis of macroeconomic and structural conditions through the Poverty Reduction and Growth Facility (PRGF);
- (c) the assessment against "prior policy actions" in the style of the World Bank (cf. PRSC matrices); and
- (d) general assessment against overall progress with the PRS (as commonly favoured by bilateral agencies).

Different EC, World Bank and bilateral approaches may all be linked to the same PAF (as in Mozambique, for example).

The extent to which *indicators* in a performance matrix are also *conditions* for disbursement is a fundamental issue in considering the design of PGBS and the nature of the "partnership" it embodies.

5.10 Annex 3 in each Country Report identifies the main instruments of conditionality and also summarises the principal conditions applied. However, understanding the nature of conditionality in each case requires a careful review of the ways in which the conditions (or performance targets) are derived and applied (see ¶5.20 below for discussion of the nature of partnership). Different donors have characteristically different approaches to conditionality. The World Bank and EC approaches (cf. Box 5.3) are the most often contrasted, but are only part of the spectrum of attitudes and practice (see thematic discussion of conditionality in Section 6, from ¶6.40).

5.11 PGBS has been undertaken against the background of international efforts to improve aid effectiveness through better **harmonisation and alignment** across all aid modalities. This impacts on all donors, not only those specifically engaged in PGBS, and various international initiatives at country level have been influential (e.g. the "test of new conditionality" in Burkina Faso, SPA missions to Rwanda and Mozambique, OECD DAC action-learning in Vietnam, the OECD Joint Learning Country Assessment (JLCA) in Nicaragua). Better H&A has been a specific rationale for PGBS in all cases, and is assessed under EQ2 (¶5.22 onwards).

<sup>32</sup> Except in Rwanda, where the issue was still under discussion.

5.12 **Technical assistance** and **capacity building** are two concepts, not one (although this report also uses the shorthand TA/CB). TA is easy to identify: it is embodied in people and there are budgets for it. TA may or may not lead to increases in capacity, while one of the rationales for PGBS is to deliver aid in ways that foster governments' *systemic* capacity. In practice, the systemic capacity building aspirations of PGBS are concentrated (but not exclusively) on capacity for public finance management (PFM), and capacity building recurs as a particular theme in considering EQ4 (PFM, ¶5.44), EQ7 (service delivery, ¶5.77) and EQ9 (sustainability, ¶5.90). Here we note that, despite the central importance of capacity building, the PGBS inputs that explicitly relate to TA and capacity building are the least well-specified. This is partly a conceptual issue (what counts as a PGBS input when PGBS and TA/CB are part of the overall strategy of the PGBS donors, but TA is typically delivered through project instruments?<sup>33</sup>) But it is also an empirical finding: for all seven countries the TA/CB aspects were the least well considered or developed elements at the design stage, and the least well coordinated in implementation.

### *Design*

5.13 Space does not permit a summary of all the substantial differences and developments in design across the study countries (which is itself a significant finding). Rarely is there a single initial "design" (Vietnam, with all PGBS channelled through a single instrument, the PRSC, comes closest), and in all cases the "design" evolves over time. Even in Vietnam, the first PRSC was essentially a rebadged Structural Adjustment Credit, but later iterations were qualitatively different. Indeed the term "design" may suggest an implausible degree of premeditation; there is much post hoc rationalisation involved. The Mozambique report refers to two separate "acts of creation", and Burkina Faso drew directly on the conditionality pilot; in Rwanda, Malawi and Nicaragua the proponents of PGBS consciously adapted designs from elsewhere, but to some extent PGBS in Uganda, without previous models to draw on, "just grew". In the more complex cases there are numerous parallel PGBS instruments (currently over 30 in Uganda), and even donors who share a single PGBS instrument (such as the PRSC in Vietnam or the JFA in Nicaragua) may express very different perceptions and expectations of it.

5.14 PGBS design is strongly shaped by its origins (who took the initiative and with what objectives). There are contrasts in how proactive the (partner) government has been: in Uganda, strong central government agencies – the presidency and the Ministry of Finance, Planning and Economic Development – used PGBS to assert leadership over donors and sector agencies alike; in Mozambique, bilateral donors took the lead in seeking to coordinate a large donor community dealing with a much weaker central government; the governments of Vietnam and Rwanda have been less proactive than Uganda in seeking to manage and coordinate their aid partners, but no less assertive of their sovereignty. Through the conditionality pilot, Burkina Faso saw more donor–government dialogue in the process of design itself; but donors taking the initiative in Malawi and Nicaragua have had to cope with turbulent changes of government. Among international partners, the World Bank has played a leading role in Uganda and Vietnam; in Burkina Faso, it was the EC, in close cooperation with some bilaterals, which took the initiative; Mozambique, Rwanda, and Malawi were essentially bilateral donor initiatives. In all cases, by its nature, PGBS seeks to become more inclusive, but the sequence of involvement influences the design, and leads to subtly different tensions among aid agencies as expansion is sought. Accommodation with, and/or integration of, PRSC approaches has been an issue in Mozambique, Rwanda and Malawi, for example.

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<sup>33</sup> Moreover, relevant TA projects may be funded by non-PGBS donors.

5.15 The strongest common influence on design has been the HIPC initiative. In every case, this spawned the PRSs to which PGBS relates. Except for (non-HIPC) Vietnam, it also shaped approaches to pro-poor spending (see the discussion under EQ3, ¶5.31) and set a pattern for discussion about how to manage additional on-budget resources; this in turn drove the PFM agenda (discussed under EQ4, ¶5.44). However, the evolution of designs has responded to a mixture of internal and external stimuli (e.g. the Uganda-specific innovation of a Poverty Action Fund, the propagation of standard PGBS approaches by major international partners, and so forth). The continual evolution of the designs is a challenge for evaluation: it makes PGBS everywhere a moving target. Moreover, the movement will continue: PGBS is an inherently dynamic relationship – hence the importance of the feedback loops depicted in the EEF and addressed specifically under EQ9 (sustainability). Crucially, the **form** of the relationship (e.g. the structures for interaction between the parties, the types of condition associated with the financial transfers) is distinct from the **content** (the policies and strategies it is used to pursue). Both influence the outcome, and both can and do change over time.

#### *Entry Conditions*

5.16 The "entry conditions" are depicted as Level 0 of the EEF. This refers neutrally to the context in which PGBS is undertaken. Whether we review governance standards (Annex A) or PFM capacities (Annex D), it is quickly apparent that common minimum thresholds were not, in practice, applied across countries. (We return in Sections 6 and 7 to further consideration of what makes a country suitable for PGBS.) In all cases PGBS was rooted in dissatisfaction with the quality of development and/or the effectiveness of aid, felt, in varying degrees, by governments and international partners. Donor dissatisfaction with existing aid instruments (although not universal) implied a willingness to take some risks on a new approach.

5.17 General dissatisfactions with aid were noted in Section 2, and have been extensively documented in the international development debate. However, there were variations in how systematically donors considered the "readiness" of the study countries for PGBS, and in whether risks were made explicit. Technical analyses of PFM systems were frequently undertaken. Assessments of political risks, and their reflection in the design, were less explicit, sometimes leading to later adaptations (e.g. by codifying underlying governance expectations in Memorandums of Understanding).

5.18 Some of the more striking contrasts among the study countries:

- *Poverty reduction*: In all cases a PRSP<sup>34</sup> was in place or under preparation when PGBS began, but track records in poverty reduction were very different. Vietnam, and Uganda were regarded as the "star" performers, but Mozambique also had many years of high economic growth rates (post-conflict). The extent to which PGBS addresses all dimensions of poverty (income poverty, services, empowerment) echoes the biases of the underlying poverty reduction strategies (PRSs). In most cases, PRSs were initially focused on justifying the allocation of HIPC resources to "pro-poor" expenditures by the government, and hence were biased towards public services. There were significant contrasts too, in ownership of the PRSP (Box 5.4 explains our approach to assessing ownership). In Uganda, Vietnam and Rwanda (three very different political settings) there was strong political backing for poverty reduction and the government was protective of its ownership of the PRSP document. In Nicaragua the PRS document has changed with changes in government; ownership has increased, but the strategy now focuses more on stimulating economic growth than on getting services and assets to the poor.

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<sup>34</sup> In Uganda, the first Poverty Eradication Action Plan (PEAP) was the PRSP prototype.

Country reports find increased ownership of second-generation PRSPs in Mozambique and Burkina Faso. During the evaluation period, ownership seemed weakest in Malawi.

- *Macroeconomic management.* There are equally sharp contrasts in countries' records of economic management. In both Vietnam and Uganda, a commitment to macroeconomic discipline was established long before PGBS began (and in neither case was this due to aid or the conditions attached to it). Stability was also embedded in Burkina Faso (built into the rules of the West African Economic and Monetary Union). Rwanda's discipline (post-conflict) was more recent, and there have been episodes of instability in Mozambique. In both Malawi and Nicaragua, failure to stay on-track with IMF programmes has been a serious stumbling-block for PGBS.
- *Public finance management.* Annex D synthesises our evidence on country PFM performance ratings. Overall, PFM in Mozambique appears significantly weaker than in the other major PGBS recipients,<sup>35</sup> but all have serious deficiencies. There is a strong impression that trends towards improvement have been more influential for prospective PGBS donors than perceived minimum standards (see also EQ4, ¶5.44).
- *Governance (politics and institutions):* Strengthening the institutions of government is a central objective of PGBS. It implies a broadening of attention from technical improvements focused on specific organisations towards capacity development at system-wide levels. This governance agenda cannot fail to have a political dimension. Here, the characteristically different stances of international partners are overlaid on the contrasts among countries. The IFIs<sup>36</sup> are supposed to be non-political, yet have increasingly recognised the developmental importance of public institutions which are at the centre of politics. The EC systematically builds a political dimension into its relations with aid recipients (notably through the Cotonou agreement with ACP countries). Bilateral aid agencies (themselves heterogeneous) are more directly exposed to the political sensitivities of their domestic public opinion, and perceive budget support as especially vulnerable to political criticism. The recipient governments in the study sample are varied in their political systems, and in their attitudes to bringing governance issues explicitly into the aid relationship (see the discussion of democracy and human rights as a cross-cutting issue, ¶5.100 and Box 5.13 below). Political, as well as macroeconomic, crises have led to disruptions in PGBS (tensions in the run-up to Uganda's March 2006 elections were a dramatic example, Rwanda in 2004 was another) but there are serious governance risks to PGBS at a more mundane level (coping with the fragmentation of Nicaragua's institutions, and its lack of a professional civil service, for example;<sup>37</sup> the correlation between electoral politics and corruption in several of the countries).

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<sup>35</sup> A recent PEFA assessment apparently suggests that previous assessments were too pessimistic. This was too late for this study to review in detail, but it certainly illustrates the variability of assessments (discussed further in Annex D).

<sup>36</sup> The International Financial Institutions (IFIs) are the IMF, the World Bank and the various regional development banks.

<sup>37</sup> The Nicaragua CR notes (¶A2.12):

A significant institutional weakness in Nicaragua is the absence of virtually all features of a professional civil service. Careers within the public administration are associated with relationships formed on the basis of patronage and clientelism. The resulting lack of permanence within the public administration is increased by the extremely high dependence of ministerial staff on project-driven recruitment practices. Staff loyalties are overwhelmingly to the 'project'/department rather than to the respective ministry itself. In 2004 separate laws were approved for the introduction of a professional civil service in central and local government. However, by 2005 there was no evidence that these laws were being implemented.

### Box 5.4: Ownership

Ownership is a common term but an elusive one. This box briefly summarises the definition, the hypotheses and the types of evidence for ownership that concern this evaluation.

#### Definition and Measurement

We adopted the following basic definition (IR Annex F), which also addresses the measurement of ownership.

*The leadership, energy and responsibility which is put into an action.*

*At the policy level it [may be] measured by four criteria:*

- i) locus of initiative for programme formulation and implementation (i.e. to what extent the initiative was on the recipient or the donor's side);*
- ii) level of intellectual conviction among key policy makers (i.e. to what extent there was a commitment in favour of reform among key players in the government);*
- iii) expression of political will by top leadership (i.e. which concrete actions were taken as the expression of this commitment); and*
- iv) efforts toward consensus-building among various constituencies (i.e. the extent of civil society participation). (Johnson and Wasty 1993.)*

#### Hypotheses

The anticipated effects of PGBS arising from greater ownership are best understood in terms of a principal-agent model of the aid relationship, which is implicit in the causality framework.

By comparison with a situation of donor control and imposed conditionality, PGBS is expected to lead: (i) government to respond more clearly to the agenda of national principals (citizens and politicians), and (ii) core government bodies (finance and planning) to more effectively manage the actions of policy agents (line ministries, local government and non-state actors) by controlling the incentives to which they respond. This is expected to help to overcome the typical perverse incentives (motivational and informational) of traditional aid. The question is whether the channelling of aid resources through PGBS does indeed modify principal-agent relations by nationalising 'principality' and agency.

#### Evidence

The starting point is to establish the location and degree of ownership, as a basis for identifying any subsequent effects that may be attributed to ownership.

Observation of ownership is difficult, because of the incentives for various parties to say what their partners or principals want to hear. Thus, written and spoken statements of policy and commitment, although relevant, cannot be taken at face value. They need to be probed, triangulated and, above all, tested against the record of action and performance. This is the approach on which this study's findings about ownership are based.

#### *Objectives and the Nature of "Partnership"*

5.19 Objectives and motives for PGBS are not always the same. The standard objectives – poverty reduction, capacity development, more effective aid – stated in the policy documents coexist with, and may be subordinate to, more directly political motivations. We do not imply that political motivations are reprehensible, but they certainly affect the dynamics of the PGBS relationship. Thus, PGBS in Rwanda reflected strong political support to the post-genocide regime; PGBS in Nicaragua aims to bolster the anti-corruption stance of President Bolaños; the current revival of PGBS in Malawi is similarly linked to a change of administration. Such political motives create pressure to move faster, and to be more tolerant in setting performance thresholds. For several of the countries, the evaluation teams found that the political risks of PGBS were underestimated, with over-optimistic assumptions about donors' ability to influence matters that are deeply rooted in the partner countries' political systems.

5.20 A step-change in the nature of dialogue and conditionality is supposed to be a defining characteristic of partnership GBS. The PRSP philosophy is that support for government-owned PRSs replaces the attempt to impose external solutions through conditionality. There is



certainly evidence in several countries (Uganda, Mozambique, Burkina Faso, Vietnam) that the PGBS relationship is significantly different from that which subsisted under structural adjustment programmes. In the first three of these countries, PGBS has been pivotal for changes in aid management relationships that are significant for non-PGBS modalities as well. At the same time, the change is easily exaggerated. It has tended to be gradual (e.g. over a series of PRSCs), to be present as an intention before it is realised in practice, and to be more significant in the eyes of the donors than those of partner governments. Government respondents in Rwanda, Nicaragua and Vietnam, for example, clearly perceived less of a difference between new "performance indicators" and old "conditionality" than did donors. (See the discussion of partnership in Section 6 – from ¶6.32 below.)

*Summary: The Relevance of PGBS*

5.21 In all cases, PGBS was a relevant response to the context. It has evolved and become more relevant over time. TA/CB has been the least well integrated input. The political context has tended to be less well analysed and adapted to than other elements of the context. PGBS is inherently complex to manage, not least because of the variety of international partners, their different interests, and sometimes unrealistic expectations. It has supported significant changes (towards "partnership") in the relations between governments and donors, but these should not be exaggerated. Donors did not, in practice, apply standard criteria ("minimum conditions") of eligibility for PGBS, which is operating in a great variety of country contexts, with governments that differ greatly in various dimensions of capacity and governance.

**EQ2: Effects on Harmonisation and Alignment**

*Has PGBS contributed to greater harmonisation and alignment of the aid process?*

*Introduction*

5.22 We distinguish between three main dimensions of H&A: (a) alignment with government objectives and strategies (policy alignment); (b) alignment with government systems (system alignment); and (c) harmonisation (among donors and modalities). There are important interactions between policy and system alignment, which we consider first.

*Policy and System Alignment*

5.23 In all the study countries PGBS has contributed to greater policy alignment of aid. How much this actually means depends strongly on the quality of the government strategies (PRSPs)<sup>38</sup> that donors align with. This has several facets. The donors' reference point is usually the national PRSP or its equivalent, but these vary not only in the quality of the document but in the extent to which it is owned and used by government itself. In several cases the integration of PRSPs with national strategy documents is improving. In Vietnam the second-generation PRSP is to be fully integrated into the national five-year Socio-Economic Development Plan; the relationship between Mozambique's PRSP and its other national planning documents is now better articulated; the revised strategy in Nicaragua takes the form of an operational development plan, although its links with the budget remain weak. Uganda's PRSP was from the beginning a national document, but it too is being adapted to better match the requirements

<sup>38</sup> The PRSPs in many of the study countries are known there by their local initials, as follows:

Burkina Faso	CSLP	<i>Cadre Stratégique de Lutte contre la Pauvreté</i>
Mozambique	PARPA	<i>Plano de Acção para a Redução da Pobreza Absoluta</i>
Nicaragua	PND [or PND-O]	<i>Plan Nacional de Desarrollo [Operativo]</i>
Uganda	PEAP	Poverty Eradication Action Plan
Vietnam	CPRGS	Comprehensive Poverty Reduction and Growth Strategy

of both government and international partners in a single document. Even where government ownership is strong there may be weaknesses that limit the PRSP's value in aligning donors with a clear government strategy (in Rwanda, for example, the PRSP reflects the fact that some sector strategies are as yet weakly developed). Where government systems are weaker (in terms of capacity in general, and the degree of discipline exerted by the central planning/finance agencies), there are practical limits to partner governments' ability to assert ownership (Mozambique). Government capacity to participate in dialogue at central and sector levels is an important variable which affects the reality and depth of ownership of agreed programmes of action, and hence the quality of donor "alignment".

5.24 Moreover, even PRSPs that are well owned may be seriously deficient as *operational* management tools.<sup>39</sup> Results-orientation is a key PRSP principle, but few PRSPs are properly costed, prioritised or linked to medium-term plans and budgets.<sup>40</sup> A PRSP that is weak in these respects does not set a very demanding standard for alignment. Ability to operationalise the PRSP depends on the quality of government systems. Particularly crucial is the ability to relate budgets to policy, and to manage for results during implementation.<sup>41</sup> These are areas in which the study countries (by reference to the PEFA criteria summarised in Annex D) are almost uniformly weak. Uganda, however, stands out for the way in which its PRSP is directly articulated with medium-term plans and budgets, and for the extent to which donor participation is invited at all stages of the planning and budgeting cycle. EQ4 (planning and budgeting systems, from ¶5.44) and EQ5 (policy processes, from ¶5.53) investigate whether PGBS is itself usefully addressing such systemic weaknesses.

5.25 Alignment with government budget cycles is generally improving, with more efforts to align the cycle of PGBS discussions with the government budget calendar and to give reliable advance notice of disbursements. However, to the extent this focuses on annual budgeting in the absence of meaningful medium-term resource planning, it is about more efficient tactics, not a strategic improvement in the use of resources.

5.26 PGBS is by definition disbursed through, and therefore aligned with, government financial management and procurement systems. However, greater reliance on government aid coordination, analytic work and TA management is not automatic. With few exceptions (Uganda again) government leadership in aid coordination is rather limited, and full collaboration in the analytical work on which donors rely is rare, but we found that PGBS had helped to strengthen government–donor collaboration in Uganda, Mozambique, Burkina Faso, Nicaragua and Rwanda. TA management remains almost invariably projectised.

#### *Harmonisation across Donors and Modalities*

5.27 In every case (including Malawi and Nicaragua) the cooperation amongst international partners that PGBS requires has had a positive effect on donor harmonisation.<sup>42</sup>

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<sup>39</sup> This is why, for example, the donors and government adopted a PAF as a more concrete and pro-poor set of measurable targets in Mozambique.

<sup>40</sup> See the annual series of reviews of the PRS approach prepared by the World Bank and IMF. The most recent is WB and IMF (2005b).

<sup>41</sup> Hence the Paris Declaration commitment by partner countries to:

Translate these national development strategies into prioritised results-oriented operational programmes as expressed in medium-term expenditure frameworks and annual budgets.

<sup>42</sup> Strong H&A effects were also reported by the Tanzania study:

GBS has made a major contribution to alignment and harmonisation. The PRBS management arrangements are considered an outstanding example of efforts to maximise alignment to the PRS and the budget cycle, while harmonising procedures across donors. (Lawson et al 2005a.)

5.28 The benefits typically extend to non-PGBS donors and modalities, as the coordination forums and mechanisms employed by PGBS can also engage other donors and help to ensure complementarity among different modalities. The policy dialogue around PGBS tends to be integrative in several important senses:

- by involving more donors in the dialogue, and widening the range of issues that individual donors are in touch with;
- by creating pressures on these donors to harmonise their positions and coordinate their assistance;
- where there is already dialogue at sector level, by helping to ensure consistency between national and sector strategies and programmes; and
- by enabling cross-sectoral issues to be more effectively addressed.

See Section 6, ¶6.60 onwards, for further discussion of the interplay between aid modalities.

5.29 At the same time, PGBS itself is not fully harmonised,<sup>43</sup> although this is one of the areas where PGBS has evolved during the period (with memorandums of understanding, joint financing arrangements, and performance assessment frameworks as instruments promoting harmonisation). Harmonisation does not necessarily mean a complete standardisation among donors (which may be impractical from the aid agency perspective, and not wholly desirable from a government viewpoint – e.g. if it were to magnify the risk of volatility in PGBS disbursements). However, the variety of different disbursement arrangements, approaches to conditionality and tranching, and so forth is often haphazard, and there is still significant scope for further harmonisation.

#### *Summary: Harmonisation and Alignment*

5.30 At this level, definite effects are apparent in all cases (stronger in Uganda, Mozambique, Rwanda and Burkina Faso, moderate in Vietnam, weaker in Malawi and Nicaragua).<sup>44</sup> As well as the H&A that is built into donors' cooperation in PGBS and its intrinsic use of government systems, there are usually indirect effects that influence harmonisation and alignment of other modalities. A common finding is that PGBS, and its associated dialogue and review structures, can complement and enhance existing sector mechanisms, often providing forums and instruments for addressing cross-sector issues.

### **EQ3: Effects on Public Expenditure**

*How efficient, effective and sustainable has been the contribution of PGBS to the performance of public expenditures?*

#### *Introduction*

5.31 PGBS is first and foremost a financial transfer. Even when PGBS funds have been small relative to total ODA and total government budgets, the amounts involved are not trivial (see Section 3 above, Tables 3.3 and 3.4). Although PGBS is by definition unearmarked, the policy conditions and indicators attached (and more generally the PRSP strategy that it supports) indicate broadly what activities are expected to be financed as a result. This may be spelt out further in budgetary targets or through forms of notional earmarking (of which Uganda's Poverty Action Fund remains a notable example). Trends in public expenditures can be observed relative to these intentions, and it is usually possible to make a reasoned judgement about what PGBS has financed (i.e. what probably would not have been financed in the absence of PGBS).

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<sup>43</sup> The extraordinary number of separate PGBS instruments in Uganda has already been noted.

<sup>44</sup> See Annex C for the detailed comparison of ratings.

5.32 Under this EQ we also consider the predictability of PGBS funds, their effects on the discretionary funds available to government, and their effects on various aspects of efficiency, including transaction costs. EQ4 investigates systemic and capacity improvements in the budgetary system; but, first, the present EQ looks at whether the perceived systemic preconditions for an improvement in planning and budgetary systems (PBS) are in place (especially discretionary expenditure and an expanded role for the national budget process).<sup>45</sup>

5.33 The terms used in public expenditure assessment need careful definition. Box 5.5 reviews the concept of pro-poor expenditure (PPE); Box 5.6 deals with predictability; Box 5.7 clarifies on-budget and discretionary expenditure; and Box 5.8 explains allocative and operational efficiency.

#### *Influence on Levels and Shares of Pro-poor Expenditure*<sup>46</sup>

5.34 "Pro-poor expenditure" has been differently defined in different countries, and the quality of data on budgeted and actual pro-poor expenditure also varies (see Box 5.5<sup>47</sup>). Subject to these caveats, our principal findings were:

- (a) In Nicaragua and Malawi, PGBS flows have been too recent and/or too irregular for a significant flow-of-funds effect on PPEs to be apparent.<sup>48</sup>
- (b) In Uganda, PGBS was instrumental in a major increase in both the level and shares of expenditure on the PEAP priority programmes, made visible through the Poverty Action Fund. This entailed a large increase in transfers to local governments as front-line service providers, and resulted in a much more equitable distribution of funds among districts as selective donor support to particular districts gave way to a national system of grants.
- (c) Mozambique has a very broad definition of PPEs, which does not focus on pro-poor priorities at the sub-sector level. Budget control and reporting are weak, so that the correspondence between budgeted allocations and actual expenditures is uncertain. This uncertainty is compounded by the large flows of off-budget aid through projects and sector basket funds. As PGBS has increased, government has continued to meet agreed targets for the share of priority expenditures within the total. The effects of PGBS have been more to do with bringing funds on budget and strengthening the national planning and budgeting system than with shifting allocations further in a pro-poor direction.
- (d) In Burkina Faso, expenditures (levels and shares) on PRSP priority sectors have increased. Much of this increase has been financed through HIPC (through a special account) and other earmarked aid. Discretionary PGBS resources have been used to achieve balance in the overall budget (i.e. to offset the rigidities of earmarked aid and ensure that essential recurrent expenditures of government are financed – see discussion of efficiency, ¶5.40 below).
- (e) Rwanda has a very broad (and expanding) definition of Programme Priority Areas (including the whole of the health and education sectors), and the approach to identifying and supporting PPEs has not yet been systematically addressed in the PGBS dialogue.

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<sup>45</sup> Conversely, the improvements in efficiency that EQ3 investigates may partly depend on the improvements to PBS reviewed under EQ4.

<sup>46</sup> In the terminology of Box 5.8 below, this review of pro-poor expenditures is concerned with allocative efficiency.

<sup>47</sup> Systematic boxes on PPEs in the B3 chapters of the CRs review the definition, evolution and tracking of PPEs in the study countries. Ability to track PPEs is a focus of the HIPC-linked AAP indicators (see Annex D).

<sup>48</sup> The Malawi CR, however, judges that there probably was an effect in protecting PPEs from budget reductions; but this was due to dialogue, conditionality and the *prospect* of PGBS flows (plus non-PGBS pressure) not actual flows.

### Box 5.5: Pro-Poor Expenditures

In the late 1990s, the HIPC initiative prompted a focus on "pro-poor expenditures" (PPEs), with the aim to ensure that the poor benefited from debt relief. PRSPs have further raised the profile of the concept. However, the concept of PPEs needs to be treated with care.

In most of the evaluation countries there is some definition of PPEs allied to special treatment of those expenditures:

- **Definitions of Pro-Poor Expenditures.** The scope of PPEs varies across evaluation countries. Some countries have broad definitions of public expenditures linked to entire sectors or PRSP objectives which take up the majority of public expenditure (e.g. around 70% in Burkina Faso<sup>49</sup> and Mozambique). Other, far narrower definitions are linked to specific sub-sectors or programmes (e.g. Uganda, 35% of public expenditures). Some countries have precise definitions of pro-poor expenditures (e.g. Uganda), whilst others just identify priority areas (Rwanda). Vietnam is the only country not to identify pro-poor expenditures explicitly, although there is debate on how to make the budget more pro-poor. Social sectors, such as health and education, tend to dominate pro-poor expenditures. It is important to note that the definitions have evolved over time, and there is a tendency to strengthen the links with the iterations of the PRSP, as well as give an increased priority to productive sectors. Thus Rwanda's definition of priority expenditures now includes power generation.<sup>50</sup>
- **Special Treatment and Monitoring of Pro-Poor Expenditures.** Usually PPEs are integrated into the budget, but may be identified separately in budget documentation, and may also be reported on separately. For example, in Uganda, the Poverty Action Fund, which represents the subset of PPEs in the budget, has separate tables in the MTEF, budget speeches and budget performance reports. PPEs are often given special treatment as well. They may be given priority or target shares in the budget processes (Uganda, Mozambique, Burkina Faso), and disbursements to PPEs may be protected during the financial year (Uganda, Mozambique, Burkina Faso, Malawi).

Defining PPEs can undoubtedly be useful early on, in facilitating the reorientation of the budget towards under-funded programmes (Uganda), or tracking key expenditures and enhancing their predictability whilst budget systems are strengthened (Malawi, Mozambique).

However, the concept of PPEs is problematic:<sup>51, 52</sup>

- Different types of **definitions** of PPEs generate different problems. Broad definitions of PPEs do not cater for the need to ensure prioritisation of expenditures within sectors to maximise the impact on the poor (e.g. the balance between tertiary and primary education or health care). Meanwhile narrow definitions draw attention away from programmes which may be very important in a comprehensive strategy for poverty reduction (e.g. vocational education, the administration of justice).
- **Targets of expenditure shares** for PPEs may generate the demand for a continuously increasing share of expenditures, rather than promoting balanced expenditure allocations. Meanwhile special treatment of pro-poor expenditures may mean that other complementary expenditures are subject to less scrutiny and greater unpredictability.

In the long run, PPEs may distract from the need for decision-making processes which deliver efficient expenditure allocations (see Box 5.8) in pursuit of poverty reduction objectives for the budget as a whole, and strong, comprehensive PFM systems. In this context the link between the PRSP, MTEF, and actual expenditures is crucial (both across sectors in the budget as a whole and within sectors).

<sup>49</sup> Based on Priority Action Programme. Earlier approaches in Burkina Faso were less inclusive.

<sup>50</sup> In Nicaragua pro-poor expenditure has changed from being very focused on social expenditure (education, health and nutrition) according to the first PRSP structure, to include a very broad concept of pro-poor expenditure more linked to income-related poverty following the economic growth approach of the PNDO-PRSP II.

<sup>51</sup> This point is echoed in the Tanzania GBS study (Booth et al 2004), which notes the over-simplicity of the broadly defined priority expenditure areas that were initially adopted. In Tanzania there was also a shift of de facto expenditure priorities towards economic services.

<sup>52</sup> The superficiality of much public expenditure analysis was pointed out long ago (see Pradhan 1996 on the illegitimacy of much standard PER analysis). Simplistic analyses persist because they are easier to do in the time (and with the data) available, and they respond to demands for easily identifiable indicators and actions.

- (f) Vietnam has no explicit definition of PPEs, but pro-poor policy actions in the PRSC (increased expenditure on education, health care funds for the poor) imply increases in pro-poor expenditure which the PRSC funds help to finance.

### *Predictability*

5.35 Box 5.6 reviews the relevant dimensions of predictability. The following aspects have been noted in the study countries:

- (a) In-year uncertainty about PGBS disbursements has been a problem in several cases. In Rwanda, delayed disbursements (sometimes for bureaucratic and technical reasons, not because funds were deliberately held back) disrupted budget implementation and required expensive short-term domestic borrowing. There have been similar problems with short-term volatility in Mozambique and Burkina Faso. In all cases, revised agreements between government and donors have sought to limit uncertainty (a) by linking funds clearly to the previous year's performance, with in-year interruptions to be limited to exceptional circumstances, and (b) by matching commitments and disbursements more closely to the budget cycle. In all cases, too, short-term predictability has improved as a result.<sup>53</sup> In Vietnam there have not been major problems with PRSC disbursements.
- (b) Uganda too has experienced short-term volatility, but has been able to cope with it by drawing on reserves (although it has caused some delays in the transfers of certain grants to local governments). In forecasting budget support receipts, Uganda applies a systematic discount to donors' projections.<sup>54</sup> Of the study countries, Uganda has much the most sophisticated medium-term planning system. Against a six-year track record of PGBS, the Uganda government has been able to undertake medium-term planning on the basis of reasonable expectations, even without firm PGBS pledges for the outer years (and has now developed a Long Term Economic Framework<sup>55</sup> within which to explore aid, revenue and expenditure projections on a 10-year horizon).
- (c) Delays in commencing PGBS under the joint funding arrangement in Nicaragua (linked to problems in remaining on-track with the IMF) have reinforced the fears of sector stakeholders that PGBS may be (even) less reliable than the earmarked aid for which it substitutes.
- (d) In Malawi, PGBS was suspended because of budgetary indiscipline. In the short term, the suspension accentuated the problems that prompted it. Suspension was in line with the conditions of PGBS (and therefore predictable) but caused surprise because some on the government side had not anticipated that the PGBS conditions would be enforced.<sup>56</sup>
- (e) PGBS has generally been (or become) more reliable than project aid (in terms of the ratio of disbursements to commitments); but it needs to be, because the consequences of budget support volatility are more immediate and more severe.

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<sup>53</sup> But in Nicaragua, just a month after the signature of JFA (May 2005), in June 2005 the BSG donors declared they could not guarantee the funds for 2005. These were eventually disbursed only in October 2005 (the JFA says by August) after the result of the IMF mission in September and for an amount lower than what was indicated in the JFA for 2005.

<sup>54</sup> It is surprising that some donors find this surprising. Risks for all forms of aid are asymmetrical; receiving more than promised is less likely than receiving less; and adjusting the budget for a windfall is much easier than adjusting for a shortfall. The Ugandan practice is therefore rational.

<sup>55</sup> Ministry of Finance, Planning and Economic Development (Government of Uganda) 2004.

<sup>56</sup> See Malawi CR, Box 3.2.

### Box 5.6: Dimensions of Predictability

As noted in the OECD DAC guidelines on budget support (OECD DAC 2005d):

The term “predictability” is sometimes used in a rather broad way – which can confuse discussions. It is important to note that predictability has a number of dimensions, and to distinguish between predictability and volatility. Thus:

- **Predictability:** Aid is *predictable* when partner countries can be confident about the amounts and the timing of aid disbursements. There are several dimensions to this issue, starting from the extent to which partner countries can rely on donor pledges being translated into actual aid flows, and including non-arbitrary and transparent criteria for suspending or adjusting payments.
- **Volatility:** Aid is *volatile* when fluctuations in aid flows are large, relative to the volume involved.

The time horizon for predictability and volatility of budget support is also important.

- In the **short term** (including within the budget year) the timing of budget support disbursements, as well as the disbursement itself, can have major implications for the recipient. Expected funds that do not arrive on time can disrupt budget implementation and require expensive short-term domestic borrowing (both aspects of operational inefficiency – see Box 5.8), with wider macroeconomic implications.
- In the **medium term** (say two to five years), the predictability of aid (including budget support) affects governments' abilities to plan expenditures strategically in line with national priorities.
- **Long-term** predictability is also relevant, particularly when aid is required to support governments' recurrent budgets. Strategies to expand public services to meet the MDGs for 2015 (most notably for education) require assured funding over an extended period.

Funds may be much more predictable over the medium term than over the short term if the uncertainty is about *when* rather than *whether* they will be disbursed. And it may be easier to forecast aggregate flows from a group of donors than to predict an individual donor's disbursements.

Different reasons for delay or non-disbursement also need to be considered. These may be simply administrative or technical, or they may be linked directly to the substantive conditions attached to budget support (hence the importance of the "non-arbitrary and transparent criteria for suspending or adjusting payments" referred to in the DAC guidelines).

5.36 The February 2003 Rome Declaration on Harmonisation adopted the following good practice on the predictability of aid:

**Multi-year programming of aid** – Donors, wherever possible should programme their aid over a multi-year timeframe that is consistent with the financial planning horizon of the partner government, and are transparent about the circumstances under which aid flows may vary. The combination of longer term and more predictable finance enables partner governments to have more trust in the reliability of donor finance, this is necessary to plan increases in service delivery capacity, and facilitates macroeconomic management. (In OECD DAC 2003b.)

5.37 While a number of donors have made moves towards indicating budget support intentions over a medium-term period, most attention during the study period has been focused (with some success) on reducing short-term unpredictability and there has been much less progress towards the reliable multi-year commitments implied by the Rome Declaration. We return in Section 6 (from ¶6.95) to the predictability issues that relate to conditionality (the issue of setting appropriate triggers and graduated responses) and to the need for medium-term commitments to facilitate medium-term planning.

#### *Discretionary Expenditure*

5.38 PGBS is intended to increase the efficiency of expenditure and support systemic capacity building by bringing more resources on budget and under the discretion of the

budgetary process (see Box 5.7). The study's findings relate to the degree of discretion as well as the volume of funds involved.<sup>57</sup>

- (a) Uganda has been the largest recipient of PGBS, which has accounted for most of its increased aid levels, while funds previously provided as sector projects or direct to districts have increasingly been channelled through the budget, including through budget support. Government budgetary discretion over PGBS funds was not complete: the Poverty Action Fund mechanism meant that funding levels to Poverty Action Fund priorities were guaranteed between years and also protected against in-year shortfalls. Initially this was not a serious constraint on the government, since the Poverty Action Fund reflected its own priorities.<sup>58</sup> Over time, effective discretion has diminished: the expansion of basic services has increased the associated wage bill, the restriction on reallocations between Poverty Action Fund and other funding lines has become more onerous, and domestic debt-service obligations have soared.<sup>59</sup> On the other hand, the original commitment to ensure the additionality of donor contributions to the Poverty Action Fund has been dropped.
- (b) Rwanda is probably next among the study countries in the extent to which PGBS genuinely expanded the scope of the government's budgetary discretion, making new unearmarked funds available.
- (c) In Mozambique and Burkina Faso too, PGBS has significantly increased the proportion of funds subject to the national budget (against a background of continuing high levels of off-budget projects and other earmarked funding).
- (d) In Vietnam, where substantial aid flows are off-budget, PRSC funding represents a significant increase in funds that are both on-budget and discretionary.
- (e) In Malawi, a reliable flow of PGBS disbursements was not established during the evaluation period. In any case, the PGBS funds did not represent a net increase in unearmarked budget support.
- (f) In Nicaragua PGBS is too recent for a significant effect. However, there are some special constraints on discretion: constitutional earmarking of funds (as a percentage of revenue for municipalities, and of total budgeted expenditure for universities and the Supreme Court) has encouraged aid agencies to disburse through separate funds (including one for HIPC resources). There are concerns that the conditions attached to the joint budget support funding now envisaged may be so detailed as to negate government's discretion over expenditure.

5.39 In line with OECD DAC harmonisation guidelines, there have been widespread moves towards bringing project aid on-budget but these are far from complete. PGBS is credited with a "demonstration effect" in several countries (e.g. Vietnam, Uganda, Rwanda, Burkina Faso) by showing that it is possible to disburse through government systems. However, as noted in Box 5.7, bringing funds on budget does not necessarily end the fragmentation of the budget process. Thus, for example, the single treasury account in Nicaragua has been very successful in making project funds "on-treasury",<sup>60</sup> but the projects concerned are still predominantly those agreed between donors and sector agencies.

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<sup>57</sup> The extent to which PGBS has added to or substituted for other aid is relevant here. See the discussion in Section 3 above (¶3.17 and Box 3.1).

<sup>58</sup> However, seen from the local government's perspective the tight earmarking of grants put in place to ensure adherence to the sector targets has limited the local discretionary power in certain areas.

<sup>59</sup> Due to the monetary sterilisation of aid – see ¶5.73 below and the more detailed discussion in Chapter B6 of the Uganda CR.

<sup>60</sup> And thereby greatly increasing the efficiency of the government's financial management.



### Box 5.7: Discretionary and On-Budget Funding

#### Discretionary spending

Budget holders who have no discretion over expenditure cannot reasonably be held responsible for its results.

Some public expenditures (e.g. debt service, constitutional allocations) are a legal obligation which take first claim on available funds, while others are subject to the decisions of the budgetary authorities. In practice there are additional nuances to "discretion". The public sector wage bill almost invariably takes priority over non-wage costs, and short-run discretion is more limited than over the medium term when costs can be restructured.

In many developing countries, a combination of limited resources and poor public expenditure management results in a very constrained budget, in which the scarcity of discretionary funds leads to gross inefficiencies (e.g. schools without stationery, unmaintained buildings, failure to provide local counterpart funds for projects funded by donors).

When the uses of aid are tightly controlled by donors (as off-budget projects, or through real earmarking of funds) it reduces government discretion, and can exacerbate allocative and operational inefficiencies (Box 5.8). Hence, a key rationale for the provision of PGBS is to provide more funding on-budget, so as to increase the discretionary resources available to the government and thus empower it to make and implement policies that require budget funds.

#### Different dimensions of "on-budget"

Off-budget financing can undermine the government's financial management systems and limits national accountability for the resources involved (although the intention may be to safeguard accountability to the donor). Hence the Paris Declaration commitment by donors to: *rely to the maximum extent possible on transparent partner government budget and accounting mechanisms.*

A study of off-budget aid in Mozambique drew the following distinctions:

To be fully 'on-budget' refers to funds that are recorded in the original government budget (on-budget), executed through the treasury system (on-treasury), accounted for through the public accounting system (on-accounting) and audited by the Auditor General's office (on-audit). A project or programme, which is not included in the state budget book also cannot be on treasury, on-accounting or on-audit. A project or programme may also, for example, be included in the budget book but executed outside the government system and not reported to national accounting offices. Thus the further along the project or programme proceeds through the budget cycle the larger becomes the proportion of projects/programmes not subject to national budgetary and accountability mechanisms. Consequently, different levels of detachment from the state budget can be found: some funds are completely off-budget and others partially on-budget (Pavignani et al 2002; Cabral et al 2005).

There is an important further point: recording aid within the budget does not necessarily bring it within the scope of the national planning, prioritising and budgeting processes. To fulfil this criterion, aid also needs to be "on-plan" with aid resources factored into the medium-term strategic expenditure planning of government – i.e. made subject to budgetary discretion, not simply notified to the government.<sup>61</sup>

<sup>61</sup> This point is strongly echoed in the Tanzania study:

How far has capturing information on external project commitments and disbursements made them subject to budgetary decisions by Cabinet and Parliament? Recording information in the budget estimates and appropriation accounts is of course a first step but, in practice, by the time such information is made available, decisions have already been taken on what will be funded. In principle, it might be possible for Cabinet or Parliament to demand the closure or restructuring of a donor project but there are no examples of this. It would seem more important to make initial decisions on project selection subject to political approval, which is one of the aspirations of the MTEF development process. This will in turn depend on the strengthening of sector strategy processes and the involvement of political decision-makers in their approval. For the moment, it would appear difficult to argue that any external resources other [than] GBS are properly subject to national decision-making processes. (Booth et al 2004, ¶94.)

### *Efficiency of Expenditure*

5.40 Box 5.8 explains the concepts of allocative and operational efficiency that the study applied. In cases where PGBS has not increased discretionary expenditure (Malawi, Nicaragua) PGBS-specific efficiency effects would not be expected. In the other countries, study teams identified the following:

- (a) In Uganda, PGBS has helped to promote major improvements in both allocative and operational efficiency,<sup>62</sup> as follows:
- increasing Poverty Action Fund spending, in line with PEAP priorities;
  - favouring service providers (including local governments) over central government ministries;
  - facilitating recurrent cost financing, and hence a better balance between recurrent and capital expenditures, and, within recurrent spending, a better balance between wage and non-wage spending;
  - there is evidence that government development spending is more efficient than donor-financed development spending,<sup>63</sup> so that the increasing share of government spending within the total implies an increase in aggregate efficiency.

The Uganda study also notes, however, some offsetting factors:

- The incentive to maximise operational efficiency has been blunted by the pace of expansion of public expenditures, which inevitably leads to a focus on attracting additional funds rather than using existing funds more efficiently.
  - The protection of Poverty Action Fund budget lines, both between and within years, prevents reallocation to complementary expenditures outside the Poverty Action Fund, and induces complacency in budget holders with protected funding; it also magnifies the in-year unpredictability of funds for the non-Poverty Action Fund budget.
  - Domestic interest payments associated with the sterilisation of aid funds are an efficiency cost (but not exclusive to PGBS aid).
- (b) In Mozambique, one of the most serious inefficiencies associated with off-budget project aid is the bias towards capital expenditures and the failure to allow commensurate increases in the recurrent costs of public services. PGBS appears to be playing an important role in enabling a more appropriate balance between recurrent and capital expenditures. As PGBS has become more predictable it has also enabled public expenditure to become more efficient by providing readily available financing in a country where liquidity crises have been the norm. This has probably contributed to improvements in execution of the investment budgets. One aspect of this is to make it easier for the government to meet its counterpart contribution to aid projects, thereby improving the efficiency of other modalities.
- (c) In Rwanda as well, PGBS has supported allocative efficiency in the financing of priority expenditures, and improved operational efficiency by allowing a better balance between recurrent and capital expenditures.

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<sup>62</sup> By contrast, the Tanzania study found little improvement to efficiency, beyond allocation more in line with PRSP priorities. It refers to "worrying signs":

The recurrent budget for administration has expanded in relative terms, whilst the share of the budget going to local authorities has remained the same. In some sectors, most notably education, there has been a large increase in administrative overheads. There are also significant deviations between approved budget allocations and actual expenditures across and within spending agencies. (Lawson et al 2005a.)

The study explains this lack of progress in terms of a weak budgeting process (lack of budget challenge) – which contrasts sharply with the case of Uganda.

<sup>63</sup> E.g. in terms of the share of administrative and overhead costs (see detailed analysis in Uganda CR, Annex 3).

- (d) In Burkina Faso, as already noted, discretionary PGBS resources have been used to achieve balance in the overall budget (i.e. to offset the rigidities of earmarked aid and ensure that essential recurrent expenditures of government are financed).
- (e) In Vietnam, PGBS, by virtue of being discretionary and on-budget, is judged to have improved allocative efficiency.

### Box 5.8: Allocative and Operational Efficiency of Public Expenditure

There is a classic distinction between three levels of outcome of a public finance management system.<sup>64</sup> The first level – *aggregate fiscal discipline* – is seen as a prerequisite for both *allocative efficiency* (strategic resource allocation) and *operational efficiency*:

- **Allocative efficiency** represents the degree to which resources are allocated in accordance with the strategic priorities of the government. In the context of a PRSP, greater allocative efficiency might involve reorienting expenditures towards PRSP priorities (see Box 5.5).
- **Operational efficiency** is the rate at which resources allocated towards and spent on the government's strategic priorities are actually translated into results, or in short the value for money of public expenditure. Ways to achieve greater operational efficiency include improving the balance between capital and recurrent spending in the budget, increasing the share of the budget being spent by service providers, or a reduction in transaction costs.

Potentially, PGBS may both directly and indirectly improve operational and allocative efficiency. Firstly, if the recipient's budget is more efficient than other aid modalities outside the budget, then an absolute or relative increase in PGBS will improve the efficiency of overall public expenditure. Secondly PGBS funds may indirectly improve efficiency, by empowering the recipient government to improve the efficiency of budget allocations through the provision of flexible budget resources (see Box 5.7).

#### *Transaction Costs*

5.41 The prospect of reducing the transaction costs of aid has been a prominent rationale for budget support (see ¶2.7 above). Box 5.9 notes the scope, and some of the complexities, of the transaction costs issue. Taking these into account, the Mozambique CR concluded:

- That the costs associated with establishing and maintaining the partnership structure within which PGBS operates were high, especially in terms of demands on the scarce time of government staff.
- That there were significant increases in up-front transaction costs to the Ministry of Planning and Finance (MPF). However, since project and sector aid have not decreased, transaction costs have spread to include MPF rather than shifted from line ministries to the MPF.
- That anticipated savings in transaction costs depend significantly on a shift to more efficient aid modalities, and may not be realised if new and older modalities continue in parallel.
- That, in regard to disbursement, the up-front transaction costs of PGBS are almost certainly lower than for other forms of aid.
- That PGBS certainly has lower transaction costs for government at the implementation stage (since it is able to use its own procurement and disbursement procedures instead of a multitude of donor procedures). However, the benefit is reduced by certain weaknesses in government disbursement and procurement procedures.<sup>65</sup>

<sup>64</sup> See for example the *Public Expenditure Management Handbook* (World Bank 1998).

<sup>65</sup> Mozambique's practice of releasing capital project funds in equal monthly instalments is particularly inefficient.

- That many transaction costs are start-up costs and that many of the transactions will exhibit positive externalities. (Review meetings, for example, are not a pure cost if they promote learning and improve the quality of decisions.)
- That the PGBS partners in Mozambique should further review and study these issues, particularly as regards the relation between transaction costs and the composition of aid portfolios.

#### **Box 5.9: The Scope of Transaction Costs**

Transaction costs occur at all stages of the aid management cycle, from the initial negotiation of aid through to its disbursement, and the implementation (through procurement, construction, etc) and monitoring of the activities it finances. There may also be conversion costs in moving from one instrument to another, and different elements of risk for different types of transaction.

Different ways of doing business may distribute transaction costs differently (e.g. between international partners and government, between country offices and HQs, between finance ministries and sector ministries).

Transaction costs are not a pure efficiency loss: the same activities that embody transaction costs may also have positive benefits (learning from working groups, mitigating risks through fiduciary safeguards and so forth).

Transaction costs are difficult to quantify, and there is much observer bias in their assessment. Much of the debate about transaction costs in relation to budget support has focused on the negotiation and monitoring costs experienced by the principals in the relationship, neglecting the balance of downstream transaction costs during programme implementation.

5.42 Findings from the other study countries are consistent with these. Nicaragua is at the stage of high initial transaction costs for establishing a PGBS system. Even where PGBS is well established, the up-front transaction costs are not perceived to have fallen as much as some had expected, but partner governments' transaction costs at implementation stage have been significantly reduced, by virtue of being able to follow standard government procedures rather than a multiplicity of donor ones. The scale of the resulting benefits is diminished by the persistence of project aid and sector baskets in parallel, and in some countries by certain rigidities and inefficiencies in government systems. (Burkina Faso is another example, but nevertheless notes higher disbursement rates for government-funded projects than for donor and HIPC-funded ones.) There are significant shifts in costs,<sup>66</sup> on both sides of the relationship. (As Box 5.9 notes, such shifts strongly influence participants' perceptions.) Despite the staff-heavy work in negotiating and monitoring PRSCs, the World Bank spent 50% less per USD disbursed on budget support in Uganda than on project support (Miovic 2004). One indirect measure of the balance of transaction cost advantage for partner countries is their strong demand for the budget support modality. And the transaction costs of scaling up budget support also appear lower than for other modalities (hence the observation by the Rwanda PGBS donors that they could not have achieved the same level of disbursements through conventional modalities – see Box 3.1 above).

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<sup>66</sup> This point is emphasised in the Tanzania study:

The evaluation was unable to reach firm conclusions on the reduction of transactions costs as a result of GBS. The distribution of transactions costs has certainly changed. They have fallen in some areas, but increased in others. There is certainly a higher administrative burden on the Ministry of Finance, although this reflects the Ministry's deeper involvement in reform processes as well as more extensive dialogue with donors. There is no clear evidence that transaction costs in line ministries have fallen. (Lawson et al 2005a.)

*Summary: Public Expenditure Effects*

5.43 The study's findings on the public expenditure effects of PGBS apply mainly to the five countries where a significant flow of PGBS funds has been established.

- (a) PGBS has supported increases in PRSP priority expenditures ("pro-poor expenditures"). However, the definition of PPEs is often rather broad and superficial; the PPE concept is at best an approximation; improvements in the poverty analysis of public expenditures are required everywhere.
- (b) Short-term predictability of PGBS has been a frequent problem, but mitigating measures are having an effect. There has been less progress in ensuring the medium-term predictability of PGBS (and other aid) in line with the Rome Declaration.
- (c) PGBS has increased the scope of partner government discretion – in some cases dramatically – both by increasing the total of on-budget aid and by reducing the scope of earmarking within the budget. It is important to note that recording aid disbursement on-budget does not, of itself, increase partner government discretion or guarantee the integrity of the budget process: for that, aid needs to be on-plan as well as on-budget. Discretion continues to be limited by the scale of various forms of genuinely earmarked aid.
- (d) Where PGBS has increased discretionary funding there have been clear gains in allocative and operational efficiency. Non-PGBS modalities have also benefited from some of these efficiency gains (e.g. via an improved balance between capital and recurrent expenditures).
- (e) Although the high-level negotiation and monitoring costs of PGBS are often perceived as onerous, there are large transaction cost savings for partner countries during the implementation of PGBS-financed activities. The extent of transaction cost savings has been limited by the scale at which other modalities have continued in parallel.

**EQ4: Effects on Planning and Budgetary Systems**

*How efficient, effective and sustainable has been the contribution of PGBS to improving government ownership, planning and management capacity, and accountability of the budgetary process?*

*Introduction*

5.44 The logic of the PGBS approach is that using government systems is a key to improving them. Long experience of technical assistance for public finance management teaches the difficulty of achieving durable improvements in the absence of system-wide incentives for better performance (see the chapter on capacity development for public financial management in OECD DAC 2005d). On the other hand, the HIPC experience demonstrated the galvanising effect that could be exerted by the prospect of a substantial stream of resources (in effect linking demand and supply for PFM improvements). In many respects PGBS is an effort to maintain the momentum from HIPC. In this section we review the effects of PGBS on planning and budgetary systems (PBS) under three headings: ownership and systemic improvements, accountability, and the role of TA in capacity development.

5.45 The study used the PEFA criteria for PFM performance measurement as a key reference point (see Box 5.10 and Annex D). Ability to track and account for public funds is only part of the picture. The PEFA criteria are a useful reminder of the importance of the links between planning and budgeting, which are crucial to the effective use of any public funds, domestic or external, including PGBS.

### Box 5.10: The PEFA Criteria for PFM Performance Measurement

The Public Expenditure and Financial Accountability (PEFA) secretariat coordinates efforts by aid agencies to establish a common approach to the analysis and monitoring of public finance management.

The PEFA Performance Measurement Framework identifies the critical dimensions of performance of an open and orderly PFM system as follows:

1. **Credibility of the budget** – The budget is realistic and is implemented as intended.
2. **Comprehensiveness and transparency** – The budget and the fiscal risk oversight are comprehensive, and fiscal and budget information is accessible to the public.
3. **Policy-based budgeting** – The budget is prepared with due regard to government policy.
4. **Predictability and control in budget execution** – The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.
5. **Accounting, recording and reporting** – Adequate records and information are produced, maintained and disseminated to meet decision-making, control, management and reporting purposes.
6. **External scrutiny and audit** – Arrangements for scrutiny of public finances and follow-up by the executive are operating.

Source: PEFA Secretariat (2005).

#### *Ownership and Systemic Strengthening*

5.46 There is clear evidence, from the study countries where a substantial PGBS flow has been established, that PGBS can have the anticipated effects on ownership and the strengthening of systems. This has occurred in a variety of PFM settings. Thus:

- (a) In Uganda, PGBS complemented the strategic vision for PFM reform that was already being driven by the Ministry of Finance, Planning and Economic Development (MFPED); thus PGBS did not introduce the reforms, but it reinforced them. Nonetheless, the effect has been powerful: the higher proportion of on-budget funding has increased the attention paid to the budget process by sectors previously dominated by aid projects (e.g. health, water and agriculture), and has increased the incentives for agencies to develop coherent strategies and plans. The Uganda budget has been systematically contested to quite an unusual degree, and the evaluation period saw continuing improvements in the scope and depth of medium-term planning and budgeting (e.g. through the increased involvement of parliament and local governments). This sophisticated process, though driven by MFPED, has been bought into by sector agencies (as well as donors). However, it was fostered by a fortunate alliance of political, bureaucratic and donor interests. In more recent years, there are signs of reduced contestation in the budget process, which indicates it will be a challenge to maintain the gains as the alliance weakens.
- (b) In Mozambique, the background standards of PFM appeared much weaker (Annex D).<sup>67</sup> Donors' efforts to bypass government weaknesses were compounding them, with a huge set of off-budget projects, while basket-funds channelled directly to sector ministries created a system of multiple budgets. The increased volume of budget support and the associated dialogue and conditions of PGBS have drawn sector ministries (and donors) further into common strategic processes, while PGBS, and the dialogue around it, is serving as a focus and stimulus for rationalisation and reinforcement of technical assistance and capacity building for public finance management. It has strengthened ownership at the level

<sup>67</sup> But see footnote 35 above.

of the Ministry of Planning and Finance by confirming its role in the national planning and budgeting systems – towards the situation as described for Rwanda below.

- (c) In Burkina Faso, by increasing the discretionary resource envelope, PGBS has had a definite effect on government ownership of and commitment to improving the budget. The nature of PGBS funding has been an important factor: PGBS funding strengthens ownership of the budget process as it passes transparently through it and gives full control over resources to government. Government has developed a systematic PFM improvement strategy,<sup>68</sup> this strategy and PGBS have been mutually reinforcing.
- (d) PGBS was applied in Rwanda in a situation where human and organisational capacity was being restored after destruction in the genocide, under a government with a strong sense of ownership and purpose. In this context the evaluation team found that:

The ability of PGBS to increase the volume of funds subject to the national budget, combined with a sense of predictability over the medium term, has had a significant impact on the empowerment of the government. The psychology of PGBS as an aid form has been extremely important in Rwanda, and can be characterised as follows:

- PGBS has focused the attention of both government and donors on government's financial management systems in a way which is qualitatively different to that of other forms of aid. By the very fact of using government systems, PGBS has created the motivation for strengthening those systems.
- Equally, PGBS has strengthened perceptions as well as the actuality of government control over resource allocation. This has engendered government confidence and its ownership of PGBS.
- Increased PGBS confidence and ownership has disposed government to a greater readiness for self analysis and policy dialogue aimed at addressing weaknesses in the resource management systems through which PGBS flows.
- PGBS inputs in the form of technical assistance, policy dialogue and harmonisation and alignment have played a key role in helping government develop public finance management.

5.47 In Vietnam, PGBS is less significant in proportion to the budget; nevertheless it has proved a valuable mechanism for promoting system-wide PFM reforms. Malawi's history of disappointing PFM reform efforts demonstrates the difficulty of making meaningful progress in the absence of aggregate fiscal discipline.<sup>69</sup> In Nicaragua, despite important progress in aspects of financial management (the single treasury account in 2001, more recent computerised accounting and project monitoring systems), the fragmented nature of the Nicaraguan administration and its budgetary processes presents a huge challenge to the improvement of links between policy and budgeting.

### *Accountability*

5.48 Accountability for public expenditures has many dimensions (see Box 5.11). The accountability effects of increasing the use of government systems and processes depend significantly on their quality in the first place and on whether additional use directly or indirectly

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<sup>68</sup> Known as the PRGB (*Plan d'actions pour le renforcement de la gestion budgétaire* – Programme for Strengthening Budget Management).

<sup>69</sup> Malawi CR:

In terms of the classic division of PFM issues into aggregate fiscal discipline, allocative efficiency and operational efficiency, all are problematic. However the weakness in aggregate fiscal discipline is fundamental, making concerted efforts to improve efficiency difficult.

fosters improvements. A particular concern – for proponents as well as critics of PGBS – has been the danger that accountability to PGBS donors could dominate and pre-empt accountability to domestic stakeholders.

5.49 Our significant country findings on accountability were as follows:

- (a) PGBS has had a strong effect in focusing donors on the quality of government systems. It has led to more (and more joint) analysis of PFM issues, and is beginning to lead to more coordinated and coherent technical assistance (see below).
- (b) The HIPC initiative and then PGBS have contributed strongly to efforts to increase transparency of government budgets and financial management. Such transparency is a prerequisite for accountability.
- (c) Similarly, the PGBS effects in strengthening the comprehensiveness of partner government budgets, including the direct effect of bringing more funds on budget (see ¶5.38 above) are an important contribution towards strengthening accountability.
- (d) It is very difficult to achieve accountability for results without strengthening the links between policy and strategic expenditure planning. Uganda's head start in medium-term budgeting was a great advantage. Replicating MTEFs elsewhere is important, but not easy: it is not just a technical reform, but requires strong leadership on the government side;<sup>70</sup> aggregate fiscal discipline is a prerequisite, and strong institutional incentives are required to overcome budget fragmentation in which vested interests have developed. (See further discussion of policy based budgeting, ¶5.63 below.)
- (e) There is a fine balance to be struck between stretching a system to perform better and overloading it, and donors do need to be sensitive about becoming too intrusive. However, it is possible, with care, to reconcile international and domestic accountability. Thus the Mozambique report finds:

All the weaknesses characteristic of the budgetary process in Mozambique are also inhibitions on democratic accountability. Above all is the fact that a large part of public expenditure is off-budget and therefore not subject to either parliamentary scrutiny or external audit. It is also difficult if not impossible for the public or parliament to trace connections between what government plans and what it spends or what actually happens to approved budgetary allocations.

Commentators, including donors themselves, sometimes suggest that accountability to donors has developed at the cost of domestic accountability (e.g. Killick et al 2005, Hodges and Tibana 2004). However, off-budget project aid and earmarked basket funding, by their nature, have been managed much more autonomously between donors and line ministries. GBS and the Joint Review (JR) process are at least open and transparent, lead to published agreements and have created instruments that are also useful to parliament.
- (f) Mozambique leads, among the study group, in operationalising the concept of mutual accountability – with the development of a framework of mutual accountability for performance, government and donors are both independently assessed annually against their agreed commitments – but in the other countries this is still mainly an aspiration.<sup>71</sup>

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<sup>70</sup> The Tanzania study notes:

In the absence of budget challenge, the MTEF has become a technocratic exercise rather than a managerial tool and a mechanism for enhanced accountability. (Booth et al 2004:83.)

<sup>71</sup> Tanzania has a much more developed arrangement, with an Independent Monitoring Group that reports to government and aid partners every two years. (Booth et al 2004.)



### Box 5.11: Accountability

**Overview:** PGBS involves a multitude of accountability relationships. This Box aims to clarify the terminology we use (cf. IR Annex F). The study has distinguished between accountability mechanisms that operate on a 'vertical' axis (external mechanisms used by non-state actors and their representatives to hold power holders to account) and those that operate on a 'horizontal' axis (institutional oversight, checks and balances internal to the state).

PGBS is based on the idea that operating through national systems will lead to greater possibilities of democratic and administrative accountability (cf. Box 5.4 on ownership). This arises at several points on the causality map: preconditions for PGBS, harmonisation and alignment, planning and budgeting, participation in the policy processes, and the empowerment element of poverty reduction, and as a cross-cutting issue in itself.

**Vertical forms:** *Elections* are the classic formal mechanism of vertical accountability, allowing citizens periodically to hold rulers to account. *Political accountability* classically operates through the legislature, particularly where there is an effective opposition, sufficient staff resources, well-functioning oversight committees, access to relevant information, and parties organised on programmatic lines. *Administrative accountability* operates through reporting systems by the bureaucracy to ministers and the legislature. Vertical accountability may be reinforced by *the media*, through independent scrutiny and the dissemination of information, and by the *advocacy and mobilisation* of civil society groups. (The effectiveness of *democratic accountability* as a whole depends on all these elements.)<sup>72</sup>

**Horizontal forms:** *Legal and constitutional accountability* is through the judiciary which checks that politicians and officials do not exceed their legal authority. *Fiscal accountability* is exercised through formal systems of audit and financial reporting for the use of public resources. Accounting offices and the role of the controller/auditor-general are, ideally, insulated from political pressure, highly professional and well endowed with resources. *Administrative accountability:* reporting relationships within bureaucracies are supposed to assure internal accountability, but there may be gaps between formal systems and the informal reality. This upward flow of internal accounting is not effective where there are incentives that reward collusive corruption and patronage. A public service culture that instils shared norms of public service and probity constitutes a moral pressure to perform responsively and responsibly.

**Mixed forms:** The distinction between forms of accountability is not clear-cut, as indicated by the appearance of 'administrative accountability' under both headings above. Internal/horizontal reporting within the administration is a necessary basis for external reporting to parliament, civil society and the media. Moreover, attempts may be made to bridge the vertical/horizontal divide by engaging citizens directly in horizontal accountability mechanisms: public hearings, participatory budgeting and auditing, citizens' juries, etc. (Goetz and Gaventa 2001).

The idea of *mutual accountability* of government to donors and vice versa is a variation of a complex sort, because it involves agencies of two or more sovereign states (with their own electoral constituencies) taking on the obligation to give account to each other. Since failure to respect mutual obligations to each other cannot necessarily lead to democratic sanction within either sovereign state, such accountability may be better seen as a form of business contract. Nevertheless, the term 'mutual accountability' does seem to express an important (potential) change in the relationship between the partners.

<sup>72</sup> The Tanzania study includes the following comment on democratic accountability:

In principle, putting aid funds through the budget should make them subject to more effective domestic control. However, there appears little evidence of parliament's scrutiny of public finances improving significantly since the expansion of discretionary funding in the budget. Some technical assistance has been provided to parliamentary committees to help to address this problem. But this is unlikely to have a significant impact in the absence of a concerted effort to improve the presentation of the budget, and until the political role of parliament is enhanced. From an admittedly low base, the capacity of Tanzanian NGOs to engage in debate on policy questions in fora such as the Public Expenditure Review has increased remarkably. Doubts remain over the depth of this capacity and the potential of NGOs to challenge decisions over resource allocation. In summary, the evaluation did not find clear evidence of improving accountability to domestic stakeholders. This confirms the assumption of the evaluation framework that, if domestic political change is not generating improvements in accountability, a GBS programme cannot create it. (Lawson et al 2005a.)

- (g) Strengthening budget systems means strengthening the role of the Ministry of Finance (and Planning) and means that its capacity is a potential bottleneck. It is natural that MOF capacity and accountability systems at national level should be a first focus. But there has consequently been a relative neglect of accountability and capacity elsewhere, especially at the decentralised levels where, in effect, most PGBS resources are (or should be) spent.

#### *Capacity Development and the Role of TA*

5.50 Embedding improvements in PFM is a long-term process, in which technical solutions are ineffective unless allied to ownership at political levels. As noted under EQ1 (¶5.12 above), the capacity- building components (including TA) have often been the least well-specified PGBS inputs. As we have indicated, PGBS can play a pivotal role in coordinating and focusing both PGBS and non-PGBS capacity building efforts for PFM. The study findings lend weight to the OECD DAC's recent general guidelines on capacity building for PFM (see Chapter 4 of OECD DAC 2005d).

5.51 There has been some deliberate coordination of PFM-related TA with PGBS, especially where the TA project/programme is managed by the principal PGBS donors (e.g. in Vietnam where the World Bank leads on both). However, even where government has been ambitious and pro-active in PFM development (Uganda), the management of TA programmes has been surprisingly ad hoc. Burkina Faso's PRGB is a partial exception (but there has been no mechanism for smaller donors to provide support and, on the whole, administrative management of the TA support provided to public finance management reforms has been cumbersome and time-consuming for both government and donors). In Mozambique, the Joint Review Aide Memoire of 2005 agreed on the development of a strategy to develop capacity in public finance management, but this explicit attention to capacity development for PFM in the context of PGBS is only recent. In Uganda, despite its documented successes, PFM reforms have not been particularly coherent and there is still no overall PFM reform strategy.

#### *Summary: Effects on Planning and Budgetary Systems*

5.52 PGBS has been an effective instrument in strengthening PFM, including planning and budgeting:

- (a) The study finds for all the countries where PGBS has an established track record (Malawi and Nicaragua are the exceptions) that bringing funds on-budget and supporting their allocation and disbursement through regular Ministry of Finance (or Planning/Finance) channels has had a significant effect in strengthening the budget process. An important part of this effect occurs through requiring sector ministries to engage directly in the national budget process with less opportunity to circumvent it through direct relationships with donors. Often, the continuation of parallel off-budget aid modalities undermines progress.
- (b) PGBS has helped to improve comprehensiveness and transparency of partner government public finance management, thus strengthening the basis for accountability.
- (c) PGBS donors (indeed all donors) need to be careful that their accountability demands do not overshadow those of national institutions, but it is possible for national accountability and accountability to donors to be mutually reinforcing.
- (d) PGBS has helped to focus the joint attention of donors, especially those directly involved in PGBS, on the PFM capacity requirements of governments and national systems. But there is scope for more systematic collaboration in support of more coherent national PFM capacity-building strategies.

- (e) PGBS has fostered progress in a variety of contexts, in terms of the initial configuration and capacity of PFM and accountability systems. However, technical solutions are not effective or durable without political commitment, and fiscal discipline is a prerequisite for meaningful progress towards results-oriented resource management systems.

#### **EQ5: Effects on Policies and Policy Processes**

*How efficient, effective and sustainable has been the contribution of PGBS to improving public policy processes and policies?*

##### *Introduction*

5.53 In all cases, PGBS is linked to the PRSP philosophy that donors should refrain from imposing their preferred policy solutions on unwilling governments but foster national policy-making and planning processes in which, through appropriate participation, the interests of the poor are effectively represented. To the extent that this approach is applied, donors are still seeking to influence policy outcomes, but in a less direct, longer-term, and, they hope, more effective way.<sup>73</sup> There is inevitably a tension between a strategy of holding back to allow space for domestic policy-making and the urge to promote particular solutions, and to demonstrate short-term progress. The tension is especially visible in the discourse around performance assessment frameworks (PAFs) or their equivalent.<sup>74</sup> Moreover, the model that portrays international partners as an external influence on the domestic policy process is misleading: in aid-dependent countries, donors are themselves day-to-day actors within the policy (and political) system.

5.54 There are a number of ways in which PGBS, through its financial and other inputs, might influence policy making processes and the quality of the policies that emerge. The prospect of funds to finance policies could provide an incentive for policy review and development that is otherwise lacking. Making funds available through the regular planning and budgetary systems of government could strengthen that process, giving sector agencies more incentive to participate in contests for funding and increasing the possibility of coherence across public agencies. A more open and transparent policy and budgeting process could encourage participation by a wider set of interest groups, with benefits for quality and accountability. The approach could also promote greater coherence and efficiency among donors seeking policy influence. And all of these factors could be supported by inputs specifically focused on TA and capacity development. In the policy arena, there is strong interaction between the PGBS and non-PGBS donors, and between the PGBS and other inputs of the PGBS donors themselves.

5.55 The country studies for this evaluation could not review the whole spectrum of policy-making in each case. Study teams undertook an overview of national policy-making, the PRSP process and the general role of PGBS, and supplemented this with a deeper review of selected sectors that featured prominently in the PGBS policy concerns. Key findings are summarised below under three (overlapping) headings: effects on policy process, effects on policy content, and the links between policy and expenditure planning.

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<sup>73</sup> PGBS is not policy neutral; it is aimed at ensuring the success of the poverty reduction strategy.

<sup>74</sup> It is undoubtedly heightened by the internal pressure on aid agency staff to "make a difference" within the short time-horizon of a typical staff posting and the annual cycle that dominates PGBS disbursement decisions.

*Effects on Policy Processes*

5.56 The country studies found evidence for all of the PGBS effects postulated in ¶5.54 above. Some examples from the CRs (most of which illustrate more than one of these effects acting in concert):

- (a) The financial incentive:
  - In Rwanda: through providing flexible, and in principle predictable, funding for the budget, PGBS gives government more freedom and encourages it to take risks in policy-making, as it knows that it can finance new types of expenditures related to its policies e.g. implementation of public sector reform, capitation grant for fee-free basic education, agricultural investment guarantee facility.
  - In Burkina Faso, sector policies (such as the strategy associated with the education SWAp) were in the course of being defined before the start of PGBS. Nevertheless, PGBS has contributed to developing these policies further both through policy dialogue and through the availability of funds making the policies feasible.
- (b) Strengthening domestic (intra-government) policy process, the incentive to develop and strengthen successive PRSPs, and to pursue policy development within and across sectors:
  - The Burkina Faso CR identifies PGBS as a continuation of the HIPC process, supporting a second PRSP (2004) more participatory and owned than the first, and reflecting a broader and more articulated set of sector policies.
  - The Uganda CR stresses that government ownership of the PRSP-centred reform process was not originated by PGBS, but the introduction of PGBS has been very significant in helping to maintain and develop the reform process by focusing donor attention on it. Focusing donor finance on it has also helped to increase coherence by reinforcing the interest of sector agencies in participating in these policy processes.
  - The Mozambique evaluation team commented that PGBS has opened up space for dialogue about policy priorities and cross-sectoral connections that previously did not exist:

On the one hand, governments need space to develop their own policies; the collectivity of donors may overwhelm independent thinking, on the other, the collective weight of PGBS donors can support policy reforms in sectors that are well-supported (agriculture, education and health), give cross-sectoral recognition to those that are in danger of being treated at a purely sectoral level (HIV/AIDS) and apply that weight to sectors that have little impetus for reform (legal and judicial sectors and, potentially, the environment).
  - The Nicaragua CR indicates that PGBS is strengthening, though not initiating, domestic mechanisms for policy discussion through SWAps and sector roundtables across a range of sectors.
- (c) More coherent and efficient donor inputs: the Mozambique CR, for example, further characterises the interaction of donors and government through the PAF working groups as follows:

This does not add new reform requirements to those already in line ministries' agendas but brings them into wider inter-sectoral consideration. Advantages identified by government and donor interviewees were

  - exposing sectors' progress to comparison and mutual learning
  - increasing pressure for change in sectors by making them part of the overall PAF rating
  - focusing government attention on the big policy issues
  - coordinating donor approaches and influence
  - reinforcing the position of the reform-minded constituency within government.

- (d) Increased transparency and participation:<sup>75</sup> The scope of participation in policy processes usually falls short of what many international partners regard as ideal, and the direct effect of PGBS in enhancing participation was rated no more than moderate. However, involving line ministries with central ones is an important advance in many cases. So too is the transparency and openness of PGBS compared with its precursors (compare the traditional Letter of Development Policy associated with structural adjustment lending against the wider scrutiny to which PAFs are exposed).
- (e) Technical assistance and capacity development. The system of PAFs and associated working groups provides many examples where policy-related TA (not necessarily itself provided as a PGBS input by PGBS donors) is linked to policy actions and policy development. The Vietnam CR notes:

Overall, PGBS appears to have had an effect on the reform programme through strengthening the design and implementation of policy through policy dialogue, with complementary TA projects providing support with implementation. It is probable that the policy dialogue process has strengthened the content of policies by providing expertise on these issues.

5.57 Positive PGBS effects were apparent in most but not all of the study countries. Contexts in Malawi and Nicaragua were less favourable:

- The Malawi CR finds that the reform process has been piecemeal and patchy, with relatively low levels of political ownership in a system of administration dominated by patronage and a weak civil service. Nevertheless, the PGBS dialogue has supported the reform process and strengthened commitment to the PRSP process in particular. However, participation in the PGBS dialogue was limited, focused on the immediate relationship with the executive, and failed adequately to involve the sector agencies supposed to implement government undertakings.
- The Nicaragua CR highlights reservations about the coherence, durability, and pro-poor orientation of national strategies. PGBS donors therefore could not simply support a proven, coherent strategy, but were nonetheless engaged in strategy formulation, with inevitable risks to national ownership of the process.

5.58 **Decentralisation** is an important policy area in all the study countries, with obvious links to service delivery, empowerment and capacity development. The extent to which decentralisation issues have been affected by PGBS depends on the level and maturity of the decentralisation processes in the study countries. In most of the countries (Vietnam, Mozambique, Rwanda and Burkina Faso) decentralisation is a rather recent, or recently invigorated, process, which is expected to be more relevant in the future dialogue on PGBS. All countries have a declared wish to deepen decentralisation, although some countries (like Mozambique and Vietnam) have primarily focused on the deconcentration mode. However, fundamental decentralisation policy and institutional issues have had a limited role in the PGBS policy dialogue,<sup>76</sup> although the most decentralised countries have experienced inclusion of more technical issues in performance assessments (e.g. measures such as number of accounts or accountants, local procurement issues, reporting systems etc.) and a gradual, although still limited, treatment of more politically important aspects. Furthermore, local governments and their associations generally feel that they have been insufficiently involved in the dialogue on PGBS.

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<sup>75</sup> Interestingly, the CR assessments of the degree of participation in the reform process are not correlated in any simple way with the apparent effectiveness of reform (see Annex C).

<sup>76</sup> This is true even for Uganda, where PGBS played a major role in financing the decentralisation of service delivery; see the Uganda CR (especially its case study of decentralisation in Annex 6).

5.59 The relatively low profile for decentralisation issues, and the limited involvement of stakeholders from the decentralisation reform process in the PGBS dialogue and policy processes probably reflects several factors: (a) decentralisation is a cross-cutting area, where the actors are more scattered and issues less concentrated than is the case with the sectors; (b) (related to that) there are no well-organised sector working groups or SWAPs for decentralisation, and clear strategies for the decentralisation reform process have been lacking in most countries – the dialogue has been problematic without a strategy and focal point; (c) the decentralisation reform process is a new phenomenon in most countries and therefore based on fewer experiences from expressions of voice and mobilisation of interests; (d) capacity development and other “soft” areas have generally been less well covered in the PGBS processes, which has focused first and foremost on macroeconomic, financial management and service delivery issues; (e) decentralisation has been treated as an aspect of wider good governance issues and has been overshadowed by general anti-corruption and accountability measures.

#### *Effects on Policy Content*

5.60 How did PGBS contribute to differences in policy content? Donors have not been effective in imposing policy prescriptions that partner countries do not subscribe to, but there are numerous examples of governments and donors collaborating in working out the best means to achieve agreed objectives. This depends, however, on government and their PGBS partners agreeing to focus their joint attention on areas where they do not have fundamental disagreements (on the *how* not the *what* of policy). There are many such opportunities, but creating “policy space” also allows governments to introduce policies that donors may not welcome. In Uganda (where the PGBS approach has been the most extensive), there are numerous examples of policy development in which government and (a full range of) international partners have collaborated. The Uganda CR comments: *It would be naive to believe that donor influence is unconnected to the government's reliance on aid finance. Nevertheless, most of the time, the government and its international partners appear to be collaborators in a common project.* Policy development in Uganda has not been confined to the social sectors on which PGBS finance has been concentrated (cf. the Plan for Modernisation of Agriculture, the Medium Term Competitiveness Strategy). It is significant that two of the policy moves that have had dramatic positive effects – universal primary education (UPE) and the abolition of health care charges – were introduced unilaterally by the government despite initial donor scepticism.<sup>77</sup>

5.61 In other countries (Rwanda, Burkina Faso) it is noted that PGBS has helped, or is helping, to elicit the development of sector strategies for sectors that were less well articulated in the PRSP, e.g. agriculture in Rwanda. (In Rwanda, as elsewhere, the World Bank decision where to focus their PRSC is based on a concept of “sector readiness” in terms of policy elaboration.)<sup>78</sup> Rwanda's introduction of innovative polices empowered by PGBS has already been noted (¶5.56(a) above).

5.62 Has PGBS biased policy in a particular (inappropriate) direction? The dialogue around PGBS has tended to focus more on basic public services, but there are increasingly examples where its range has extended to private sector and income-generation issues, and such widening of attention can be facilitated by PGBS-supported institutions. Thus USAID, though not a PGBS donor, chairs a private sector working group of the PGBS Joint Review process in Mozambique. As already noted, agricultural modernisation has been treated as a cross-sectoral

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<sup>77</sup> On the positive effects of these reforms, see Murphy et al (2002), and Deininger and Mpuga (2004).

<sup>78</sup> See the PRSC stocktaking study (World Bank 2005b) for a general review of the World Bank approach.

issue in Uganda. More generally, recent PRSP and companion policy documents from the governments of Malawi, Vietnam, Uganda, and Nicaragua have all placed more emphasis on growth-focused strategies.<sup>79</sup> Aspects of the PGBS approach can be relevant:

- The Mozambique CR notes that the private sector area of reform is complicated by the fact that it straddles so much ground; there is no single government agency responsible for reforms that affect the business environment, making policy dialogue more difficult. Hence, there is potential value in the cross-sector forums that PGBS helps to foster.
- Areas that urgently require reform of public policy do not necessarily require large public expenditures. PGBS can link policy actions to the impetus attached to funds that have a broader purpose. Thus, the Vietnam CR finds:

Many of the policy actions and triggers in the PRSC are aimed at creating a strong regulatory environment, addressing market failures and reducing the role of the state... ... successes stem not only from PRSC policy actions and triggers, but also from dialogue within partnership groups which are involved in discussing similar issues such as regulatory frameworks and policy reform. Furthermore, there is also a lot of project support in these sectors which the PRSC is complementing and as such, both partnership groups and TA provided by projects can be considered as part of this overall PGBS approach.

#### *Policy-based Budgeting*

5.63 An important way in which PGBS can strengthen the policy process is by strengthening the ability of Finance/Planning ministries to hold sector agencies to hard budget constraints, and by giving more prominence to policy issues in the dialogue about expenditures. This relates to findings under EQ3 about the need to refine concepts of pro-poor expenditure, and under EQ4 about the importance of medium-term frameworks that can systematically relate expenditures to policies. In several of the study countries (indeed, in all except Uganda) this is highlighted under EQ5 as a missing link, or one in its infancy that PGBS can help to nurture. Thus:

- Malawi: Overall there has been a very weak link and coordination between sector policies, and PGBS has had very little influence upon sector policies. This is partly caused by the relative lack of sector support and planning, in particular the lack of an effective MTEF process. (This is despite attempts over the years to use technical assistance to help develop an MTEF process.)
- Burkina Faso: There is a well-established budget calendar and the overall MTEF, in place since 2000, has prompted enhanced strategic dialogue between the Ministry of Finance and line ministries. However, development at sectoral level has been uneven. In particular, the various analytical, planning and budgeting tools in use (e.g. PERs, sectoral and the overall MTEF, programme budgets, PIP) are weakly articulated and linked.
- Mozambique: Without hard budget ceilings and with incremental budgeting, budget formulation can only to a very limited extent be driven by policy objectives and cross-sector prioritisation.

To the extent that the majority of aid in Mozambique remains in the form of projects and basket funds, the authority of the [finance ministry] vis-à-vis the line ministries and the policy process as a whole is limited.

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<sup>79</sup> The same applied to revisions of the PRSP documents for Mozambique and Tanzania that were under way at the end of the evaluation period.

- Rwanda: MTEF and annual budget preparation processes remain weakly linked. Sector ministries and sub-national entities are not confident that the MTEF provides them with relatively secure three-year resource envelopes.
- Nicaragua: The sector policies included in the national development plan (PRSP) are at different degrees of development and the MTEF, which is a crucial missing link between policy and expenditure plans, was only an intention at the time of the evaluation. Therefore, at the time of the evaluation, the articulation of sector policies with expenditure plans was still weak.
- Vietnam: there is little evidence thus far of a strong link between sector policies and expenditure planning. However, the development of MTEFs, initially at sector and provincial level, is under way.

*Summary: Effects on Policies and Policy Processes*

5.64 Findings from the study countries support the following conclusions:

- (a) Donors are actors within policy systems, not just external influences upon them (this is intrinsic to the concept of partnership). They cannot successfully impose policies, but by acting judiciously they can help to refine and accelerate reforms for which there are already domestic proponents; the local political and institutional context is crucial.
- (b) The influence of PGBS on policy processes and policies is intimately connected with the PRSP, and interacts with other aid. Our ratings for the study countries strongly suggest that PGBS has been more efficient where it has had greater penetration (by virtue of its duration, relative importance – in terms of money and international partners involved – and the sophistication of dialogue arrangements it supports and uses).
- (c) PGBS can have significant effects through all mechanisms anticipated in ¶5.54 (financial empowerment, strengthening incentives within government, improving coherence and coordination among international partners, and complementary TA inputs). In various contexts it has supported policy development across a range of sectors.
- (d) So far decentralisation has had a minor role in the policy dialogue and processes, but PGBS may be a relevant tool for addressing decentralisation as a cross-cutting policy issue.
- (e) There is far to go in most of the study countries in strengthening the systemic links between public expenditure and policies. PGBS can be a strong support to the development of medium-term budgeting frameworks, but these are mostly in their infancy.
- (f) The effects we identify are definite, and efficient, but modest, at least in comparison to some expectations. PGBS does not transform underlying political realities (it is unrealistic to expect any form of aid to do so).

**EQ6: Effects on Macroeconomic Performance**

*How efficient, effective and sustainable has been the contribution of PGBS to macroeconomic performance?*

*Introduction*

5.65 Structural adjustment finance (and associated debt relief) during the 1990s were the forerunners of PGBS. The focus then was on macroeconomic stabilisation, trade deregulation and privatisation. With PGBS, the form of the financial instrument is very similar (unearmarked budget finance is not new as such) but the policy focus changes: there is more attention to the



composition of public expenditure and the conditions linked to "poverty reduction". (This applies to HIPC debt relief and the PRGF as well as to avowedly PGBS instruments.) However, macroeconomic stability remains fundamental. At the same time fiscal discipline not only serves stability but also is itself a prerequisite for allocative and operational efficiency of public expenditure (see Box 5.8 above). PGBS conditions are more or less explicitly linked to the PRGF and on-track status with the IMF.

5.66 PGBS is only part of the aggregate of ODA, and coexists with other financial programme aid (see Annex B). In considering its macroeconomic influence, it is relevant to consider whether its effects are qualitatively different from those of other aid in any material way. Compared to project aid (and even more so to TA projects), unearmarked discretionary funding to the government seems likely to have a higher domestic multiplier (since it is not tied to imports in any direct way). Moreover, to the extent that it finances country-wide recurrent expenditures of government (teachers' salaries in rural schools, for example), it may also have more equitable effects, by increasing demand more widely through the economy. However, it was beyond the scope of this study to investigate this issue.<sup>80</sup>

5.67 We look successively at (a) influence of PGBS on macro and fiscal discipline; (b) PGBS effects on the costs of budget finance; and (c) possible side-effects in terms of crowding out private investment and/or substituting for domestic revenue.

#### *Fiscal Discipline and Macroeconomic Stability*

5.68 PGBS could support macroeconomic stability and fiscal discipline by virtue of the funds themselves, the way that they are delivered, and/or the dialogue and conditions to which they are attached (including the conditions linked to the PRGF, for which the IMF is the chief interlocutor). There are also risks, since unpredictability and volatility in the delivery of PGBS could have adverse consequences (cf. the discussion at ¶5.35 above). The risk could be magnified to the extent that PGBS increases the value of disbursements that become directly dependent on the same macroeconomic conditionality.

5.69 In most of the study countries, macro stability had been established prior to, and independently of, PGBS (with the longest track records of stability in Uganda, Vietnam and Burkina Faso<sup>81</sup>). In these countries, and also in Mozambique and Rwanda, we found that PGBS, though not a principal factor, reinforced the macroeconomic stability that was already in place. It did so through the financial flow, by making it easier for the authorities to maintain fiscal discipline, and, to an extent, by aligning the influence of the PGBS donors with the PRGF. The effect on fiscal discipline has two sources: by increasing resources available to the budget, it makes it less difficult to keep within expenditure limits; and it strengthens the Ministry of Finance by bringing resources on budget that were previously off-budget. PGBS also served to widen the circle of international partners involved in macroeconomic analysis and discussions.

5.70 A special case is Burkina Faso, which is a member of the West African Economic and Monetary Union (WAEMU). Membership commits the authorities to agreed standards of fiscal discipline and macroeconomic stability. Thus, again, macroeconomic stability was embedded prior to PGBS; moreover, the rules of the union also prevent PGBS flows from adversely affecting economic stability, e.g. through inflationary effects. Nevertheless, PGBS has helped

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<sup>80</sup> The other side of this coin is that PGBS may exert a higher relative demand for non-tradables, with implications for the economy's capacity to absorb aid without distortions.

<sup>81</sup> Although Burkina Faso had to adjust to the painful devaluation of the CFA franc in 1994.

maintain and advance regional integration through the mutual links between PGBS and WAEMU support programmes financed by the same donors.

5.71 In Nicaragua, significant PGBS is too recent for macroeconomic effects to be expected, but fears about an adverse effect on predictability have been reinforced by the government's difficulties with the IMF, and the consequent delay to the commencement of JFA disbursements in 2005. In Malawi, fiscal discipline has not been securely established in recent years; the suspension of PGBS when Malawi went off-track exacerbated the situation in the short term; its long-term effects will depend on whether it changes future expectations and acts as an incentive to maintain discipline in future.<sup>82</sup> The episode is reviewed in detail in the Malawi CR.

5.72 Short-term unpredictability (as noted under EQ3) was a problem in several cases. In Mozambique and Rwanda short-term domestic borrowing by government was necessary as a result (see ¶5.73 below). Uganda was able to use its reserves<sup>83</sup> to buffer delays in disbursements (and the reserves themselves had been boosted by PGBS); in Uganda's case increased domestic borrowing was due to the Ugandan authorities' chosen strategy for sterilising foreign aid receipts, not to the volatility of PGBS per se.<sup>84</sup> In Rwanda, the evaluation team found agreement among stakeholders that PGBS, starting with DFID's PGBS operation in 2000, has provided more focus on macroeconomic policy and processes than other aid forms, and helped sustain the pre-existing disciplined culture of budget deficit management.

#### *Costs of Budget Finance*

5.73 PGBS, provided through ODA grants and credits,<sup>85</sup> is a relatively cheap source of funds and therefore should reduce the average cost of budget financing.<sup>86</sup> Access to relatively cheap (PRSC/PRGF) credit was the obvious motive for Vietnam to engage in the PRSP process.<sup>87</sup> As noted, however, delay in anticipated PGBS receipts led to short-term domestic borrowing in Mozambique and Rwanda. The effect was more serious in Rwanda, where the unpredictability of PGBS contributed to the near doubling in domestic interest payments between 2001 and 2004, with annual increases of 27% in 2003 and 16% in 2004. Thus, rather than reducing the cost of budget financing, PGBS in Rwanda is deemed to have had a moderately perverse effect. Uganda is an anomaly because of the costs of sterilisation;<sup>88</sup> however, the underlying issue of partner countries' macroeconomic absorptive capacity for aid is not specific to one particular aid modality. Overall, PGBS has had the effect of reducing costs of budget financing in the case countries, with these exceptions.

#### *Effects on Revenue Effort and Private Investment*

5.74 The broader (cross-cutting) issues concerning the influence of PGBS on the balance between public and private sectors are considered in Section 6 (¶6.8–¶6.13). An unintended effect that the financing of PGBS-related expenditures might have is to crowd out private

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<sup>82</sup> Although previous forms of GBS over a decade failed to establish fiscal discipline.

<sup>83</sup> PGBS inflows also reduced Burkina Faso's need to draw on the central facilities of BCEAO (Central Bank of West African States).

<sup>84</sup> The sterilisation issue is explored in some detail in Chapter B6 of the Uganda CR.

<sup>85</sup> The World Bank is now able to shift towards grant terms where debt sustainability is problematic; Burkina Faso is among countries which may benefit.

<sup>86</sup> The total cost of borrowing, of course, depends on the amount borrowed.

<sup>87</sup> Although – as the PRGF experience showed, Vietnam's revealed preference had clear limits.

<sup>88</sup> See Chapter B6 of the Uganda CR.

investment by raising domestic interest rates.<sup>89</sup> There has been upward pressure on interest rates as a result of short-term borrowing in Uganda, Mozambique and Rwanda. In Uganda the borrowing was a policy response (sterilisation) that relates to aid in general, not just PGBS. In Mozambique and Rwanda it is presumed that there was a moderate adverse effect on the formal private sector (more through the effects on the costs of working capital than on investment finance). In Rwanda there was also a build-up of payment arrears which would adversely affect private sector suppliers. As discussed earlier (from ¶5.35 above), the PGBS donors have made adjustments designed to limit future volatility of disbursements.

5.75 Simple economic theory would suggest that, other things equal, an assured supply of budget support might be expected to reduce revenue effort. This would be very difficult to investigate conclusively without applying econometric techniques, for which adequate data are rare. Since PGBS is accompanied by conditions and TA that specifically address revenue collection, other things are not equal. Further, PGBS is not alone but operates alongside many other interventions, especially the half-yearly consultations with the IMF.<sup>90</sup> We did not find significant negative effects of PGBS on tax revenue in the time period reviewed,<sup>91</sup> although:

- Trends are notoriously difficult to establish in the face of fluctuations (which may be due, inter alia, to the electoral cycle – as in Mozambique in 2004).
- PGBS did facilitate (pro-poor) abatement of user charges for services in some cases (Rwanda, Uganda).
- PGBS did make it easier for the Uganda government to curtail, and then abolish, the main source of local government tax revenues, with adverse effect on local government finances and accountability. However, in aggregate, this was compensated by increases in VAT and income tax.
- In Burkina Faso PGBS supports efforts to increase tax revenue through its links to IMF consultations and the convergence criteria of WAEMU.

*Summary: Effects on Macroeconomic Performance*

5.76 Given that this is not an econometric study of the impact of aid as a whole, our conclusions are limited to judgements on specific effects attributable to PGBS in the study countries during the relatively short period in which it has operated. In general (for the five countries where PGBS has become established):<sup>92</sup>

- (a) It has acted as a reinforcement to pre-existing macroeconomic stability. Flow-of-funds effects are complemented by a degree of reinforcement of the PRGF programmes.
- (b) It has widened international partner involvement in macroeconomic debate.

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<sup>89</sup> The intended effect would be to reduce the government's recourse to borrowing. A perverse effect may arise (a) if unpredictability of PGBS funds necessitates short-term borrowing, or (b) if the authorities resort to domestic borrowing in order to sterilise the foreign exchange receipts.

<sup>90</sup> Or, in the case of Burkina Faso, the convergence criteria agreed upon in the framework of the WAEMU.

<sup>91</sup> In fact there were strong increases in tax revenue in some countries.

<sup>92</sup> For Tanzania, the GBS study concluded:

The restoration of macroeconomic stability has been the result of strong political support for tight expenditure control and strict monetary policy. GBS funds permitted sharp increases in social spending whilst maintaining prudent borrowing. In the absence of such resources, it would have been difficult to meet the expanding recurrent cost commitments without a significantly higher level of deficit financing.

There was no evidence of unintended negative macroeconomic consequences on a scale that would outweigh the positive macroeconomic effects of GBS. (Lawson et al 2005a.)

- (c) PGBS is also found to be an aid to fiscal discipline, through providing funds that are subject to the budget process.<sup>93</sup>
- (d) Effects on both macroeconomic stability and discipline are potentially undermined by unpredictability. The risk may be exacerbated if a larger proportion of aid funds becomes hostage to the same macroeconomic conditionality.
- (e) Apart from limited cases where short-term interest rates were driven up by domestic borrowing to cover shortfalls or delays in PGBS receipts, the study found no obvious "crowding out" effects.
- (f) Similarly, and in a context where revenue strengthening measures are pursued in parallel with PGBS, the study found no obvious diminution of overall tax effort that could be attributed to PGBS.

### **EQ7: Effects on Service Delivery**

*How efficient, effective and sustainable has been the contribution of PGBS to improving government performance in public service delivery?*

#### *Introduction*

5.77 The Enhanced Evaluation Framework requires investigation of possible PGBS effects on pro-poor service delivery beyond those that arise directly from any additional funding. As the Causality Map spells out, possible institutional effects are envisaged from improved allocative and operational efficiency of public finance management (as discussed under EQ3 and EQ4) and from improved policy (EQ5). Here it is important to consider the time scales associated with PGBS. While flow-of-funds effects may be rapid, the likely time scale is longer for the policy and institutional changes through which additional effects on the efficiency and effectiveness of service delivery could take place. Moreover, as discussed under earlier EQs, anticipated PGBS-supported improvements in expenditure allocation and expenditure management systems are themselves at an early stage in most cases.

5.78 Generally the evidence of increased PGBS-supported expenditure on basic public services (and increased quantity of services provided) is clear enough; the direct flow-of-funds effects have been considered – and found to be substantial – in the review of public expenditures under EQ3 – see ¶5.34 and ¶5.43 above. However, evidence of PGBS-related improvements in the quality of services or their access by poor people is inherently more difficult to assemble, because of a dearth of good data on quality and access. Finally (as noted in Section 2, ¶2.8(e)) attribution among multiple influences becomes increasingly uncertain as investigation proceeds further along the causal chain. We note findings from the CRs first on the overall efficiency, effectiveness and pro-poor access of basic public services, then on the capacity and responsiveness of service delivery institutions.

#### *Pro-poor Public Service Delivery*

5.79 Two of the case study countries, Malawi and Nicaragua, can be discounted, since there has not been the predictable flow of PGBS inputs on which subsequent effects are predicated. Elsewhere there are significant examples where PGBS has led to, or greatly facilitated, changed ways of doing business, with positive effects on service delivery. Thus, in Burkina Faso (following up impetus from the HIPC initiative), PGBS has stimulated the abolition of the separate, basket-funded project structure that was managing the school construction programme and its integration into government; it has complemented other modalities by

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<sup>93</sup> In Malawi, as noted, it was no more successful than previous GBS in securing fiscal discipline.

funding teachers' salaries, thus ensuring sustainable benefits from capital investments. In Uganda, there has been a major shift to local governments of management responsibilities for basic services, with standard financing through government grants supplanting a variety of special donor programmes with limited coverage. In Mozambique, as already noted, PGBS has brought more funds on budget and promoted coherence in the establishment and follow-up of sector targets. The Rwanda CR reports a similar effect on coherence, but also notes that strengthening of this results chain is at an early stage, and is partly dependent on predictability of fund flows within government:

Another effect of PGBS is that, while the "public action chain" from sector policies/ strategies to activities/service delivery is still weak, it is also sensitive to predictability and timeliness of fund flows, and would remain so even if it was stronger. The predictability and timeliness of government funding for service delivery is in turn heavily dependent on the predictability of PGBS releases and on an appropriate and reliable scheduling of PGBS releases in the course of the fiscal year. ... this effect has not been very positive thus far.

5.80 Data on the poverty incidence of public services is generally patchy, and assumptions about which expenditures are "pro-poor" have been rather broad (cf. the discussion in Box 5.5 above). It is clear, however, that rapid expansion of basic services has often been accompanied by sharp falls in quality (education performance in Uganda after UPE is a spectacular example). Some aspects (especially where physical infrastructure is concerned) occasion legitimate debate about appropriate standards. Uganda and Burkina Faso have both argued, for example, that the norms propagated internationally under Education for All (EFA) are inappropriately expensive for them. In other ways, however, the benefits of greater access for poor people have been severely compromised by deteriorating quality. There is no room for complacency, but – especially against the background of the strong political demand for services – it is difficult to imagine a sequence in which expansion did not come before attention to quality. The challenge is to address the quality problems that are now manifest; the PGBS mechanisms for dialogue and for setting and following up performance targets are a means of doing so. (See further discussion in Section 6, ¶¶6.9–¶¶6.11.)

5.81 Issues are somewhat different in Vietnam than in the African PGBS cases. Basic service coverage and standards are much higher, and the flow-of-funds effects of PGBS are much less prominent. Through the PRSC matrix there has been considerable attention to measures for strengthening the quality of service delivery, for both health and education. However, since most of these measures were recent (PRSCs 3–5, from 2004 onwards), it is too soon to judge how effectively they have been implemented.

#### *Capacity and Responsiveness of Service Delivery Institutions*

5.82 As part of general moves towards strengthening accountabilities, it is hoped that PGBS fosters greater responsiveness of service delivery institutions to users. The most plausible mechanism is via the decentralisation of resources and responsibilities to service delivery levels, within an appropriate framework of local accountability. The strongest PGBS effect generally noted on relevant intra-government incentives is a strengthening of the accountability of sector agencies to the central budgetary authorities, which increases the scope for system-wide reforms (see ¶5.46 above). At the same time, decentralisation or deconcentration in various forms is proceeding or on the agenda in most of the study countries (see ¶5.58 above), having gone furthest in Uganda; but the potential effects of decentralisation on the responsiveness of service delivery institutions are ambiguous. As noted, PRSC policy actions in Vietnam have supported important reforms in service delivery for both health and education. Elsewhere, there is less evidence of significant changes in relationships between service delivery institutions and beneficiaries, but PGBS dialogue has increasingly brought issues of quality, equity and responsiveness into focus. Thus the Mozambique CR notes that PGBS's contribution to service delivery capacity has mainly been indirect, by supporting the development and implementation

of systems in ways which should make the allocation of funds to services more efficient, while adding a more open and collective pressure to meet service targets and to undertake promised reforms. The Rwanda CR similarly notes that PGBS influence is through setting performance targets associated with funding. The Uganda CR notes insufficient attention to local government capacity development as a weakness of PGBS thus far. The same applies to Rwanda and Burkina Faso.

*Summary: Effects on Service Delivery*<sup>94</sup>

5.83 The most obvious effects of PGBS on service delivery have been through increased expenditure and expanded services, most notably for basic education and health (as discussed under EQ3). This was largely a response to strong, and popular, demand for services. Quantitative improvements (access for more poor people) are easier to achieve than qualitative improvements, and the expansion of basic services has often been accompanied by a deterioration in quality. Other PGBS effects (through policies and, especially, through institutional changes) are likely to take longer in any case. Where there are beginnings of such change (e.g. via improved allocative and operational efficiency of public finance management) they are not yet embedded, but such effects, allied to mechanisms linking PGBS to dialogue and performance targets (and enhanced coherence and coordination across sectors), have considerable potential to address issues of quality and access.

**EQ8: Effects on Poverty Reduction**

*How far has PGBS strengthened government impact on poverty?*

*Introduction*

5.84 Several country teams have stressed the fallibility and limitations of available poverty statistics and cautioned against attempts to seek too mechanical a relationship between PGBS inputs and poverty outcomes, especially in view of the likely lead times for PGBS effects and the potential for exogenous factors to swamp predicted effects of PGBS.<sup>95</sup> We noted earlier (¶5.15 above) that the form of the PGBS relationship (e.g. the structures for interaction between the parties, the types of condition associated with the financial transfers) is distinct from the content (the policies and strategies it is used to pursue). PGBS is intended to support national poverty reduction strategies, and these have themselves been evolving (partly as a result of dialogues connected with PGBS and aid in general). This is an additional reason not to expect a simple relationship between PGBS and poverty reduction.

5.85 In the recent past, there have been spectacular falls in income poverty in several of the study countries (Vietnam, Rwanda, Uganda, Mozambique), for which high and sustained rates

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<sup>94</sup> The Tanzania study concluded that:

Poor service delivery outcomes can be traced back to weaknesses at the output level. The efficiency of public expenditure is low, intra-government incentives remain weak and the democratic pressure that might drive improvements is substantially absent. In the evaluators' opinion, without further policy and institutional changes major improvements in poverty and human-development indicators are likely to stay out of reach. It is equally clear that internal changes would be assisted by a continued reduction in the number of aid projects and programmes within the public sector. (Lawson et al 2005a.)

<sup>95</sup> The Tanzania GBS study also makes these points strongly:

A limitation of the poverty measures from the perspective of the evaluation is that the period covered is too early, by about at least half a decade, to be considered in any sense the result of the processes of change we have been discussing [Moreover] monitoring based on household surveys is very largely concerned with changes over a longer period than the three-year PRS cycle. Hence, it has quite little to offer in terms of the three-year review process, let alone the year-on-year accountability and learning functions of PRS monitoring. (Booth et al 2004, ¶253.)

of growth are a primary explanation. This has been associated with a strong post-conflict rebound effect in three of these countries. In all cases it is likely that further poverty reduction will be progressively more difficult as it becomes more concentrated on the poorest subgroups, on peripheral regions and on conflict-affected areas. There is a danger that coincidence will be taken for causality and that, having received more than its share of the credit for past reductions in headline poverty figures, aid will attract an undue share of the blame for deceleration or setbacks.<sup>96</sup>

#### *Poverty Dimensions and Data*

5.86 The EEF distinguishes three dimensions of poverty: income poverty, access to essential services, and empowerment. Public action may influence the different dimensions in different ways, some of which are highlighted in the causality map (Figure 2.2 in Section 2 above). Each dimension has different data implications, as we briefly discuss below:

- (a) Income poverty trends during the evaluation period (1994–2004) are difficult to establish, except in very broad terms, for most of the study countries. There has been much attention to a set-back in poverty reduction in Uganda. Here, as elsewhere, there is controversy over the robustness of the data (and in particular the consistency between successive surveys), as well as over the underlying reasons for the apparent trends. Data issues and poverty trends are reviewed in the CRs.
- (b) Strictly, impact data on the basic service dimension of poverty also require household survey or similarly penetrative data, but it is common to take output and access data as a proxy over the short term. This is the dimension in which PGBS effects are intuitively the most obvious and likely to be the most rapid, given the role of PGBS in financing the expansion of such services.
- (c) Empowerment is the least measurable of the dimensions. Empowerment effects noted in the country studies include elements related to the accountability of public institutions, increased (democratic) decentralisation, and access to justice. Probably the empowerment effects of the largest potential scale to which PGBS has been a direct contributing factor were the re-establishment of the justice and basic security systems in Rwanda and the implementation of district decentralisation in Uganda (but it is important not to exaggerate the empowering effects of the latter – see the special case study of decentralisation that comprises Annex 6 of the Uganda CR).

#### *Causality Findings*

5.87 The country reports' conclusions on the identifiable links (if any) from PGBS outcomes to poverty impacts were as follows:<sup>97</sup>

- Burkina Faso: Limitations in data have made assessment of trends difficult but there is growing agreement that income poverty has moderately decreased between 1998 and 2003. PGBS has had an impact on poverty reduction related to living conditions through the improvement in the delivery of basic services. Its overall impact on income poverty has been modest, and mainly indirect by supporting general economic growth and macroeconomic policy. Impacts on empowerment and social inclusion are not yet very visible, but the processes under way are mainly long-term.

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<sup>96</sup> A similar point applies when donors claim the credit for government policy measures they approve of.

<sup>97</sup> They are summarised along with other causality findings in Annex 5 of each CR and in Annex E of this synthesis report.

- Malawi: PGBS has not represented new resources or a consistent flow of funds; not surprisingly, therefore, there was no evidence of a PGBS impact on poverty.
- Mozambique: PGBS has had a small positive effect on service delivery mainly by adding collective pressure in support of sector priorities. It is likely to have a longer-term positive effect through the development of systems and supply of more predictable (recurrent) funding. PGBS's effect on income and non-income poverty and the empowerment of poor people is judged to have been, so far, small but positive.
- Nicaragua: PGBS flows are too recent for poverty impacts attributable to PGBS to have been expected.
- Rwanda: Data are limited, but there appears to have been progress along all dimensions of poverty reduction, though from a very low post-1994 base. The effects of public action on poverty reduction are hard to disentangle from the general post-conflict rebound effect. Income poverty has fallen but inequality seems to have risen significantly from pre-1994 levels. On balance, taking account of both flow-of-funds and other effects, PGBS has had a positive effect on the non-income dimensions of poverty reduction. The public action strategies which PGBS supports have only recently begun to focus more directly on growth and income poverty reduction.
- Uganda: There has been significant progress in non-income poverty through expansion of basic services. Income poverty progress has been patchy – undermined by continuing conflict in northern Uganda, with a recent setback in overall income poverty reduction. It would be wrong to expect a short-term mechanical relationship between aid (including PGBS) and income poverty (but this also means that aid should not claim undue credit for the past positive correlation between aid flows and poverty reduction). The main contribution of PGBS to poverty reduction has been through the expansion of basic services, although the quality of services is weak. The effects of PGBS on income poverty have been far weaker, and indirect, through facilitating macroeconomic stability which in turn fosters growth. Empowerment effects are also weak, despite the effects of decentralisation on participation, as the accountability of government in general and the administration of justice and human rights remain weak.
- Vietnam: In a context where there is already a good track record on poverty reduction and macroeconomic management, the main poverty impacts of PGBS are not from flow-of-funds effects, but from institutional effects due to the implementation of budget-related policy actions included in the PRSC policy matrix. The main effect of PGBS has been on non-income poverty, with only weak effects on income poverty reduction and empowerment of the poor.

*Summary: Effects on Poverty Reduction*

5.88 Study teams could not confidently track distinct (separately identifiable) PGBS effects to the poverty impact level in most countries. This applies more particularly to income poverty and empowerment dimensions. There are some clear links from PGBS to improved basic services, through funding and through a collective commitment of donors and government to service delivery targets.

5.89 This somewhat agnostic finding largely reflects the difficulties of data, time-scale and methodology that have been described. It does not mean that PGBS has no effect on poverty, nor that it has less effect than other modalities. Moreover, PGBS as a modality is unique in the way it directly supports national PRSs. The poverty reduction strategies that PGBS supports are being refined, partly in response to country experiences of growth and poverty reduction.



The relationship between PGBS and the government impact on poverty is therefore not static: the next EQ considers the ability of PGBS to learn from experience.

### EQ9: Sustainability of PGBS

*Is the PGBS process itself sustainable?*

#### *Introduction*

5.90 The DAC criterion of sustainability is:

The continuation of benefits from a development intervention after major development assistance has been completed. The probability of continued long-term benefits. The resilience to risk of the net benefit flows over time. (Box 2.1 above.)

In view of the short term during which PGBS has been operation, the study focused especially on the latter two elements of this criterion.

5.91 Sustainability of the PGBS process is important in the context of the long-term objectives that are set for PGBS. The time scale for plausible institutional and policy effects on poverty reduction is a long one, as is the horizon for achievement of the MDGs. PGBS needs to be durable, but also adaptable, if it is to perform effectively over the long periods that its intentions require. The Enhanced Evaluation Framework (Section 2, Figure 2.1) highlights the importance of feedback loops between all levels of the framework, and to all stakeholders. Feedback that directly influences disbursement decisions is likely to assume a special prominence, but should not crowd out broader processes of review and learning.

5.92 Different stakeholders require different types of feedback for different purposes. The sustainability of PGBS depends not merely on whether PGBS is effective but on whether, if it is effective, this continues to be recognised by the relevant decision-makers and, if it is not (adequately) effective, there are working feedback mechanisms that promote learning and adaptation. Moreover, PGBS is not self-contained: it is conceived as a support to national poverty reduction strategies and its own monitoring and evaluation should be seen in the wider context of M&E systems for the poverty reduction strategy and for public policy as a whole.

#### *Learning, Adjustment and Feedback in PGBS*

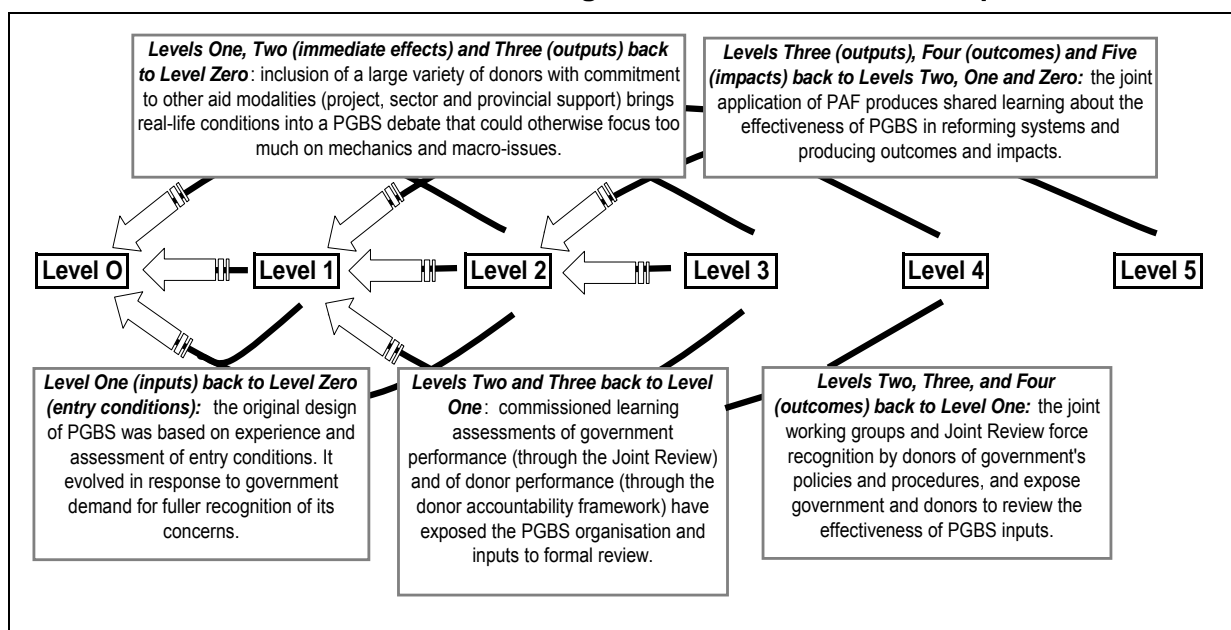
5.93 Once again, Malawi and Nicaragua are at different stages of evolution than the five study countries where PGBS is more firmly established. Nicaragua has been in the process of designing a joint donor approach that was not launched until 2005. Malawi has now, in effect, re-launched PGBS with a new government. The Malawi CR, however, notes that Malawi's experience (fragility and suspension followed by a re-launch) may yet come to be seen as evidence of durability. The PGBS donors, although they suspended funding, did not end the dialogue or withdraw their offer of partnership. There are some signs that, with more realism on both sides and less ambitious objectives, PGBS may now be on a more secure footing.

5.94 There are promising systems for learning in the five study countries where PGBS has become established. Mozambique exhibits a wide range of processes of learning and feedback that are employed to maintain flexibility and evolution against the risk of ossification: commissioned learning assessments, working groups, joint assessment against PAF targets, and independent evaluations of donor performance against targets agreed with government. The shared learning mechanisms identified in the case of Mozambique (Box 5.12) operate between all levels of the EEF. The Mozambique CR concludes that *they have made the Joint Programme a resilient model in terms of the robustness of its organisation, its capacity to include an expanding membership, and its increasing alignment on government systems, reform*

*priorities and policy concerns.* An aspect of this robustness is its inclusiveness across donors and modalities.

5.95 PGBS in Burkina Faso was built on the deliberate learning process of the pilot conditionality reform. The annual PGBS review process dovetails the PRGF macroeconomic review, the government-led annual PRSP review and a review of PFM reform progress. There has been strong shared learning among international partners – e.g. about the use of government systems (which led to a shift from basket funding towards sector budget support). Although learning effects are strongest within the group, they have spilled over to other modalities. Weaknesses include the imprecision of the definition of pro-poor expenditures. Some PRSP discussion and working groups are not yet functioning as expected, which means that the feedback loops are mainly related to government and international partners and relate less to national stakeholders, such as the National Assembly, civil society and the private sector.

**Box 5.12: Shared Learning and Feedback in Mozambique**



Source: Mozambique CR, ¶B9.12.

5.96 Similarly, according to the partnership framework for budget support in Rwanda, monitoring and feedback is due to take place through the PRSP/APR process, the PRGF review cycle and regular assessments of progress in PFM reforms. This should be brought together through the joint PGBS reviews which, since early 2005, have been integrated in the broader harmonised calendar agreed between government and all international partners. The bases for learning by government and its partners are relatively strong in principle (the PRSP annual review process is in place, there is an established PRGF review cycle, and a PFM review mechanism is under development). The new harmonised calendar and the articulated PRSP-2 preparation process are big steps forward in bringing together learning opportunities. There are practical limitations, arising especially from weak government M&E systems (overall and sectoral), including weak or non-existent mechanisms for citizens' feedback. As yet, there is no explicit feedback loop with regard to the institutional effects of PGBS, given the currently loose relationship between PGBS and the public service reform and decentralisation processes. The development of strong accountability systems at all government levels for both results and the use of funds is critical. Providing PGBS in the absence of such systems to start with was understandable, but it will become increasingly difficult for PGBS donors to justify continuation unless systems are demonstrably improving. In Rwanda's geo-political situation, political risks

remain a potential threat to continuity (especially in view of the home constituency concerns of bilateral donors).

5.97 Uganda's M&E systems are distinctive in the extent to which they have built on pre-existing processes and documents, their integration with the medium-term planning and budgeting framework, and the deliberate "nesting" of sector conditions and reviews within the broader structure. As in Rwanda, the major risks to sustainability are more political than fiduciary. Systems for annual feedback that allow the release of successive tranches of PGBS are working (despite some inefficiencies). There is room for more concern about the long-term sustainability of the PGBS process. This stems from an erosion of the three-way alliance (President–Ministry of Finance–donors) that gave the poverty reduction enterprise its initial strength, and the related growth of political concerns that make it harder for a number of donors to justify aid to the Ugandan government (and budget support in particular) to their home constituencies. There was good fortune in the timing of PGBS's introduction when poverty indicators were anyway heading in the right direction; sentiment may now swing the other way. Altogether, the feedback systems that have been adequate so far are likely to face tougher challenges in future.

5.98 In Vietnam, too, as the recent PRSC stock-taking exercise shows, there is willingness to learn lessons and adapt the PRSC to overcome perceived weaknesses particularly in design, as the number of co-financiers has become larger and a new PRSC cycle from 2006–2010 begins. There has also been a wider impact on aid coordination generally as more co-financiers have joined the PRSC. This has resulted in a sharing of experiences and incorporation of different viewpoints. The newly established Partnership Group on Aid Effectiveness (PGAE) has been an important forum for dialogue between the government and international partners. This group aims to enhance aid effectiveness, particularly through looking at alternative aid modalities and ways to strength harmonisation and alignment.

#### *Summary: Sustainability of PGBS*

5.99 The analysis of PGBS in practice demonstrates that it has, in all cases, been evolutionary in design. It has generally shown, and has needed to show, an ability to learn from experience and adapt accordingly. As yet, there is less reliance on general policy and performance review mechanisms (such as PRSP Annual Progress Reports) and more use of PGBS-specific reporting than can easily be reconciled with the aspiration of PGBS to support national systems. However, there are moves towards convergence (e.g. by linking performance assessment frameworks more closely to national strategy documents). The main threats to continuity and sustainability of PGBS processes are likely to be political (see the discussion of risks in Section 6, from ¶6.72 below).

### **Policy Cross-Cutting Issues**

#### **Policy CCIs in PRSPs and PGBS**

5.100 Four cross-cutting issues (CCIs) – gender, environment, HIV/AIDS, and democracy and human rights – were singled out in the Terms of Reference. A substantive assessment of countries' performance against these CCIs would have been beyond the scope of this study. We focused, rather, on how they have influenced, and been influenced by, PGBS. A particular concern was to note how they have explicitly featured in the PGBS instruments. Given that PGBS is, by definition, unearmarked, these policy CCIs will be most visible (a) in the PRSP that PGBS supports, and (b) in the dialogue and conditionality of PGBS operations (see Box 5.13).

5.101 For the non-political CCIs (gender, HIV/AIDS, the environment), PGBS has been a useful complementary instrument to other aid modalities in Mozambique, Uganda and Vietnam by coordinating, establishing forums for dialogue, and making links across sectors. The Vietnam CR notes scope for greater attention to gender, while the Mozambique CR highlights the still weak implementation of reforms. In Rwanda non-political CCIs are not explicitly addressed in the PGBS design because the PGBS donors consider that other mechanisms ensure these issues are adequately covered; there are some indicators and measures related to HIV/AIDS and the environment, but there is little specific attention to gender. In Burkina Faso, Malawi and Nicaragua the relationship between non-political CCIs and PGBS is limited; there are some specific policy formulation actions or indicators for gender and HIV/AIDS, but not directly for the environment.

5.102 In the majority of the case study countries, HIV/AIDS is having large-scale demographic, social and economic effects. These are poorly understood and need to be explored in detail in each case. A so-called “chimney effect” on population has been predicted for Botswana (UNAIDS 2005) and was already seen in census data from parts of Uganda as early as 1993 (Low-Beer et al 1997). This occurs when the very young and the very old are supported by only a slim pillar of remaining people in their prime of life. There is a danger that this scenario may be generalised to all countries. To do so would be inappropriate and a poor basis for policy making. Country-specific AIDS impact modelling is recommended.<sup>98</sup> The point here is that when an epidemic reaches more than 1% HIV prevalence in the general population it is serious but potentially manageable; when it exceeds 5% it is probably out of hand and will have social and economic impacts affecting growth and development. In Mozambique, Uganda, Malawi and Rwanda, adult prevalence exceeds 5%; in Burkina Faso it is around 5%. In both Nicaragua and Vietnam, general adult prevalence remains very low, but it is elevated in some groups and geographical areas. In all of these countries, then, HIV poses serious long-term implications for development strategy and for public expenditures (e.g. for prevention and treatment, for resource availability, for demands on public expenditure, for the attrition of skilled personnel). In a context where even medium-term perspectives are weak, these long-term issues are seriously neglected (Barnett and Whiteside 2006).

5.103 Democracy and human rights feature as underlying principles in memorandums of understanding for PGBS except in Vietnam. These issues are a key risk factor affecting the continuation and level of PGBS (Uganda) and have affected some donors’ decisions over suspension (Malawi). In Rwanda these issues are raised in the context of the overall dialogue and by individual donors based on bilateral agreements with the government. Where a separate governance matrix has been developed, progress is slow (Nicaragua, where, however, PGBS is still in its formative stage), or donors are not satisfied with the quality of the dialogue (Uganda), or implementation is weak (Mozambique).

5.104 Governance issues are taken up again in Section 6 (see especially the discussion on managing risks, from ¶6.72 onwards). Cross-cutting issues in general are also addressed further in Section 6 (see ¶6.15, and the review of interaction between PGBS and other aid modalities from ¶6.60 onwards).

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<sup>98</sup> Using for example, the standard Spectrum software easily available at: [www.futuresgroup.com/index.cfm](http://www.futuresgroup.com/index.cfm)

**Box 5.13: Visibility of Policy CCIs in PRSPs and PGBS**

	<b>Gender</b>	<b>HIV/AIDS</b>	<b>Environment</b>	<b>Democracy and HR</b>	<b>SUMMARY</b>
<b>BF</b>	Gender is dealt with in the PRSP but priority actions lag behind the theoretical analysis and remain mostly limited to classical interventions for girls and women, with little attention to productive services or empowerment. PAF includes policy formulation actions.	PRSP Priority Action Programme includes fight against HIV/AIDS. PAF includes policy formulation actions.	Burkina Faso has had an environment strategy focused on desertification since well before PRSP-1. It was added as element to PRSP-2 as funding activities became difficult outside this frame. Environment does not figure in the joint PGBS matrix.	Strong PRSP emphasis on good governance. Democracy and Human Rights are included in the PRSP and are part of the processes of political dialogue with all development partners. Human rights figure in the joint matrix, but not very prominently. However, they can be discussed when the APR is on the agenda. PGBS seems to have taken a low profile regarding dialogue on political governance, leaving it to the more general process of PRSP monitoring and bilateral processes between the government and the donors	All CCIs addressed in PRSP but with different degrees of elaboration. PGBS has provided policy formulation for gender and HIV/AIDS. Democracy and human rights issues are mostly addressed through other channels.
<b>Mal</b>	PRSP has "good governance" pillar and seeks to mainstream key cross-cutting issues such as HIV/AIDS, gender, environment. Gender-specific health and education indicators in the PAF. 6 out of 23 indicators in draft 2005 PAF have a gender dimension.	HIV/AIDS indicators considered for PAF.	Environment has not featured explicitly in PGBS dialogue and is not reflected in the draft PAF.	D&HR are implicitly included in donor-government relationships and influenced some donors' decisions over suspension in the 2001–04 period. Included as a fundamental principle in JFA.	Overall, limited relationship between the cross-cutting issues and PGBS.

	Gender	HIV/AIDS	Environment	Democracy and HR	SUMMARY
<b>Moz</b>	<p>PRSP (PARPA) defines gender equality as integral component of poverty reduction.</p> <p>Active gender working group within the Joint Review process.</p>	<p>A national cross-sectoral strategy has existed formally since 2000. The PGBS Joint Review process has been important for making this a reality by asserting the case for a cross-ministerial approach to prevention and treatment. Cross-cutting working group on HIV/AIDS.</p> <p>Pressure through Joint Review process for harmonisation and consolidation of funding mechanisms.</p>	<p>PRSP rated strong on environmental analysis and proposals, weak on implementation.</p> <p>Environmental legislation is strong but practice is much weaker.</p> <p>PAF indicators on access to land rights, approval of applications for natural resource management and small-scale irrigation.</p> <p>PGBS and the Joint Review have dedicated little attention to environmental matters, but there is now a cross-cutting working group on environment.</p>	<p>Human rights are strongly established at a formal level, but less so in practice, particularly in regard to the performance of the courts, prisons and police. The Joint Review has given collective impetus to the pursuit of legal and judicial reforms. PAF indicators are used to monitor progress in reforms.</p> <p>Peace and democratic political processes, the rule of law and human rights are included as underlying principles of the MOU.</p>	<p>PGBS has had an impact on CCIs in three main ways:</p> <ul style="list-style-type: none"> <li>– coordinating and giving collective impetus;</li> <li>– making links where themes are shared across sectors e.g. HIV/AIDS, gender,</li> <li>– pressing for implementation where formal policies, rights and legislation are in place but the implementation of reform is weak: e.g. human rights, gender, and potentially the environment.</li> </ul>

5. Evaluation Findings in Detail

	Gender	HIV/AIDS	Environment	Democracy and HR	SUMMARY
<b>Nic</b>	<p>PRSP (PND-O) incorporates a gender focus for a number of economic and social areas, and sets the empowerment of women as a central aim.</p> <p>The PAM states as an aim the reduction of inequality between men and women and has some specific gender-focused indicators.</p>	<p>Within the PND-O, HIV/AIDS is dealt with together with other infections such as malaria and tuberculosis; it focuses on prevention and treatment and control of HIV/AIDS cases.</p> <p>Two HIV/AIDS indicators are included in the JFA PAM, but little effort is made to ensure mainstreaming through policies and sufficient budget.</p>	<p>The first PRSP (ERCERP 2001) and progress reports are rated highly for coverage of environmental issues (though the later PND-O has been criticised for lack of attention to urban pollution).</p> <p>Environment does not feature directly in PRSC or JFA PAM.</p>	<p>PND-O includes an area of governance which embraces: citizen participatory mechanisms; fight against corruption; transparency and efficiency of public administration; decentralisation; citizen security, protection against violence and protection of vulnerable groups, especially women.</p> <p>PAM includes an area on governance focusing on justice, human rights and citizen security and participation, but progress is slow.</p> <p>D&amp;HR included as overarching principles in JFA.</p>	<p>PRSP documents have been subject to major revision after changes of government. The first PGBS initiatives were linked to the first PRSP (ERCERP). The JFA (2005) is linked to the more recent PND-O.</p> <p>Overall, PGBS is still in its formative stages.</p>

	Gender	HIV/AIDS	Environment	Democracy and HR	SUMMARY
<b>Rwa</b>	Gender, HIV/AIDS and environment are not explicitly addressed in the PGBS design (with the exception of a few PRSC indicators on environment in selected sectors). Donors are generally satisfied that they are adequately addressed elsewhere.			Human rights are given a prominent place in the PRSP, but human rights and democracy issues are one of the lines of divide between PGBS and non-PGBS donors. For bilateral PGBS donors, issues of human rights and democracy underpin the PGBS dialogue through reference to their overarching bilateral MOUs (Cotonou agreement for EC). But there are no measurable conditions.	Gender, HIV/AIDS, environment appear peripheral to PGBS, not because partners are not interested but because other mechanisms appear to be sufficient to ensure that issues are adequately addressed by public action.  Issues of human rights and democracy are raised in the context of the overall dialogue between government and donors, and by individual donors based on their bilateral agreements with the government.
	Gender equality features strongly in policy documents, and has specific attention in the budget process.  Little specific attention in PGBS indicators etc.	Well-articulated strategy in PRSP. Mostly financed through project aid and global fund.  WB PRSC matrix includes some HIV/AIDS related measures in the health section (development and implementation of a pricing policy for HIV/ AIDS treatment). Other PGBS donors not directly involved in the health sector; the lead donor on HIV/AIDS (USAID) does not provide PGBS.	Rwanda PRSC and APRs score above average for environmental mainstreaming. PRSC-1 matrix includes measures related to the environment (e.g. establishment and strengthening capacity of the environment agency and affiliated local bodies) as part of its limited focus on rural development and more specific focus on water management and energy.		



5. Evaluation Findings in Detail

	Gender	HIV/AIDS	Environment	Democracy and HR	SUMMARY
<b>Uga</b>	<p>Gender issues are addressed and mainstreamed more systematically in Uganda than in many countries and existing government structures have been used rather than parallel structures. The PEAP (PRSP) dialogue has embraced dialogue on gender, and there is a donor group which deals with gender issues and engages on these matters. PGBS has thus fostered an holistic approach to gender issues that has practical importance beyond the inclusion of a significant number of gender-related conditions in the PRSC policy matrices.</p>	<p>Uganda was one of the first countries, with a strong political lead, where HIV/AIDS prevalence has fallen. However the HIV/AIDS strategy was only partly mainstreamed in the first two iterations of the PEAP. The main interaction between the PGBS approach and HIV/AIDS issues is the controversy over whether funds potentially available from the global fund (GFATM) should be exempt from government's macro and sector ceilings. The government's consistent position that they should not, is reflected in the Partnership Principles.</p>	<p>Environment issues were also embedded in the PEAP process, and a Sector Working Group was established in 2001 to prepare and harmonise sector plans and budgets. PRSCs have included actions relating to strengthening environmental institutions, but they remain weak and are lent limited budget priority. PRSC stocktake: <i>While issues of environment are not central to the PRSC process, they do tend to be cross-sectoral and could be supported through PRSCs. However, this would further strain the already large scope of the PRSCs.</i> (Miovic 2004.)</p>	<p>PEAP includes strong governance pillar. Democracy and HR are major concerns for many donors, with the war in the North a key issue. More recently electoral democracy has been an issue. Separate governance matrix developed, but donors not satisfied with quality of dialogue around it. Democracy and HR issues a key risk factor affecting continuation and levels of PGBS.</p>	<p>PGBS has proved a useful complement to other aid instruments in addressing a range of cross-cutting issues, with issues being integrated into the PRSP (PEAP), and forums for dialogue established. PGBS has had little success in influencing issues with respect to democratisation and human rights.</p>
<b>VN</b>	<p>Cross-cutting issues have been addressed through partnership working groups which were established as part of the PRSP (CPRGS) process. Gender, the environment and HIV/AIDS have been specifically included within the PRSC process with varying success.</p> <p>Gender-related policy actions have featured intermittently in the PRSC. To date there has been no attempt to mainstream gender issues within the PRSC by including any comprehensive initiatives aimed at gender or examining the gender impact of PRSC policy actions.</p>	<p>A PRSC2 policy action was to develop a programme for the HIV/AIDS strategy based on a public health approach. A draft PRSC4 policy action involves the issuing of a tuberculosis prevention plan, accounting for its interaction with HIV/AIDS.</p>	<p>Environmental targets were included in the CPRGS (but it was rated only average for mainstreaming of environment) and the PRSC has included a variety of measures aimed at enhancing the regulatory framework.</p>	<p>The Government has not been willing to engage international partners in dialogue on D&amp;HR, and this is not included in the scope of PGBS. Pillar 3 of the PRSC focuses on governance, but none of the policy actions specifically address human rights or democracy. Some donors pursue D&amp;HR issues bilaterally and through projects.</p>	<p>PGBS (the PRSC) has been a useful complementary instrument for addressing non-political CCIs, with progress on environment and HIV/AIDS. Scope for greater attention to gender.</p>

	Gender	HIV/AIDS	Environment	Democracy and HR	SUMMARY
<b>SUM.</b>	<p>All countries address gender in national policy (PRSPs) but to varying degrees of elaboration.</p> <p>Gender is addressed in a limited fashion in Burkina Faso, Malawi and Nicaragua – PAFs include some specific indicators. In Rwanda, gender is not explicitly addressed in the PGBS design and there is little specific attention to it in the indicators. Gender-related policy actions featured in Vietnam but there was no attempt at mainstreaming them. In Mozambique and Uganda, gender is mainstreamed more systematically (especially under Uganda’s holistic approach), but Mozambique highlights weak implementation of reform.</p>	<p>All PRSPs address HIV/AIDS, with strategies in Mozambique, Rwanda and Uganda particularly well articulated.</p> <p>HIV/AIDS is addressed in PGBS in all the countries through PAF indicators. However, there is limited mainstreaming in most of them, while Mozambique stands out for pressure through the PGBS Joint Review process for harmonisation and consolidation of funding mechanisms.</p>	<p>All PRSPs address the environment to varying degrees – Nicaragua, Mozambique, Rwanda and Uganda are rated highly on environmental coverage, while Burkina Faso has had a strategy in place since well before PRSP-1.</p> <p>The environment does not feature in PGBS in Burkina Faso, Malawi and Nicaragua. It does feature directly in PGBS dialogue and indicators in Mozambique, Rwanda, Uganda and Vietnam. However, it has been given little budget priority in Mozambique and Uganda (although Mozambique now has a cross-cutting working group on the environment)</p>	<p>In all countries with the exception of Vietnam, the PRSPs include a strong governance emphasis. The Vietnam government has not been willing to engage in a dialogue on D&amp;HR with donors.</p> <p>D&amp;HR is included as an underlying principle in PGBS MOUs in all countries except Vietnam. D&amp;HR issues are a key risk factor affecting the continuation and level of PGBS (Uganda) and affected some donors’ decisions over suspension (Malawi). In Rwanda, D&amp;HR issues are raised in the context of the overall dialogue and by individual international partners based on bilateral agreements with government. Where a separate governance matrix has been developed, progress is slow (in Nicaragua in particular it is still in a formative stage) or donors are not satisfied with the quality of the dialogue (Uganda) or implementation is weak (Mozambique).</p>	<p>For the non-political CCIs (gender, HIV/AIDS, environment) PGBS is a useful complementary instrument to other aid modalities by coordinating, establishing forums for dialogue, and making links across sectors (Mozambique, Uganda and Vietnam). In Rwanda, non-political CCIs are not explicitly addressed in the PGBS design because other mechanisms appear to be sufficient to ensure issues are adequately addressed. In Burkina Faso, Malawi and Nicaragua there is overall a limited relationship between non-political CCIs and PGBS, with some specific policy formulation actions or indicators. D&amp;HR is included as an underlying principle of PGBS MOUs in all cases except Vietnam, and several countries have developed a separate governance matrix. However, progress is slow.</p>

## Synthesis of Causality Findings

5.105 Each Country Report includes (as Annex 5) a summary of causality findings against each of the main links postulated in the causality map (Figure 2.2 in Section 2 above). These findings are collated and synthesised in Annex E of this Report.

5.106 In summary, these tend to show that PGBS has had a greater impact on Level 2 and Level 3 of the causality map (immediate effects/activities and outputs) than on Levels 4 and 5 (outcomes and impacts). Additionally there is more certainty over the findings on effects at Levels 2 to 3. There are a number of reasons for this broad finding:

- Time lags mean that in some countries there has been insufficient time for complicated effects through institutional change and service delivery to become apparent.
- Data limitations mean that data on immediate effects and on outputs are often fairly readily available (often as a result of donor and partner government monitoring) whereas data on outcomes and impact are in an earlier stage of development.
- Attribution of causality to PGBS is easier at Levels 2 and 3 where the links between cause and effect can be more plausibly identified. At Levels 4 and 5 the outcomes and impacts identified are the result of a complex interaction of many factors, in which PGBS is only part of the story.

5.107 Against this background, different countries show different patterns, reflecting, inter alia, differences in the maturity of PGBS in that country, different starting points in terms of stability, government capacity and so forth, and different balances between different aid modalities. Uganda (with a mature form of PGBS, substantial budget support funds and a relatively high capacity at the outset of PGBS) is a notable example where findings at impact level are positively linked with PGBS. In Malawi and Nicaragua the history of PGBS is shorter, the amounts involved are smaller, and government capacity prior to PGBS was weaker. In these countries no effect at impact level is noted.

5.108 The Enhanced Evaluation Framework distinguishes between flow-of-funds effects, policy effects and institutional effects (this is illustrated in Figure 2.1, in Section 2 above). Where additional funds do flow, it is possible to identify causal links through to Level 4 (because budget allocations to service delivery agents can be observed) and even to Level 5 (particularly for some aspects of non-income poverty, such as access to services). This is true, for example, in both Rwanda and Uganda. Obviously, where funds have not been additional or have been intermittent, as in Malawi, such causal links cannot be confirmed. (The causal link may be present, but there cannot be an attribution to PGBS.)

5.109 Interestingly, some flow-of-funds effects are present even where the funds involved represent only small parts of the budget – e.g. in Vietnam where funds were never more than 1.8% of the government budget. However this tends to be the case only for flow-of funds effects up to Level 3. Beyond Level 3, confident identification of causal links seems to require substantial PGBS funding.

5.110 Other aspects of the flow of funds which are mediated partly through institutional effects (such as the empowerment of the budget-making process by making it more meaningful) are less readily identifiable, although there appears to be a pattern of improvement here up to Level 3 in those countries where PGBS is reasonably well-established. However, the links on from this to outcomes and impacts are weaker.

5.111 Policy impacts through PGBS policy dialogue and conditionality are much harder to link reliably to outcomes and impacts. This reflects the general problems on data and attribution noted above as well as the specific problem that PGBS dialogue and conditionality becomes inseparable from general dialogue and conditionality at these levels. Generally a strong effect is noted in the early levels linked to alignment and harmonisation, although this is often also associated with prior and concurrent developments in respect of HIPC and other support. Effects on policy concerning public sector use of resources appear stronger than the influence on policy towards the private sector, but this partly reflects the balance of policy effort in PGBS so far.

5.112 As described under EQ9 (¶5.91–¶5.99), feedback processes operating across the levels of the causality map to feed into the evolving design of PGBS are positively identified in all cases, although the links between general feedback mechanisms and those specifically for PGBS are still in evolution.

## 6. THEMATIC ISSUES

### Introduction

6.1 In this Section we review a series of thematic issues. We draw principally on the study findings but we also attempt to identify broader patterns that are consistent with the findings from the seven study countries.<sup>99</sup> This is in line with the TOR requirement to develop more general and forward-looking conclusions and recommendations. The discussion is organised under four main themes: (a) the uses of PGBS; (b) partnership and conditionality; (c) PGBS and other modalities; and (d) managing risks.

6.2 Recommendations are highlighted under each of the topics. The recommendations are deliberately pitched at a strategic level because a high level of detail could detract from the main messages, and also because one of the study's key conclusions is that PGBS is not an "off-the-peg" instrument: it needs to be carefully tailored to individual country circumstances. Therefore (both here and in Chapter 7) we offer design principles, rather than detailed designs.

6.3 Two features of PGBS are especially relevant to the discussion. First, PGBS is an evolving instrument: it has changed and developed in the cases studied, and evolution has affected both its institutional form and its strategic content (cf. ¶5.15). Second, PGBS is not self-contained: it interacts in many ways with other aid instruments, and has to be assessed in terms of the difference it makes to the overall effectiveness of aid.

### The Uses of PGBS

#### Introduction

6.4 Under this heading we discuss: the distinctive features of PGBS; its strategic biases; PGBS and cross-cutting issues; capacity development issues; the dangers of overloading; and the relevant timescale for PGBS. In doing so, we note some of its potential strengths, but also highlight the dangers of expecting too much and too quickly.

#### Distinctive Features

6.5 The evaluation's focus on *partnership* GBS is premised on a belief that PGBS is qualitatively different from other forms of financial programme aid. One of the evaluation tasks has been to test this proposition (see the discussion of EQ1, ¶5.19–¶5.20 above). We noted that the differences are not as sharp as sometimes implied. Unearmarked budget funding is not new per se. Differences lie more in the objectives, conditions and other elements of the PGBS "package"; they may become more pronounced as a country's experience with PGBS proceeds; and they may be related to the scale at which PGBS is applied. The study countries vary in the extent to which PGBS in practice is something qualitatively different. The least difference is visible in Malawi; there the recent revival of PGBS resonates with earlier balance of payments support in its focus on macroeconomic stability as a prerequisite for poverty reduction (but now as a platform for moving on to the wider PGBS agenda). In Vietnam – at the other end of the spectrum of aid dependence – PGBS in many ways resembles sector programme lending, but with a wider policy focus, and a joint approach by international partners.

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<sup>99</sup> Plus Tanzania when the findings of that study are comparable (see Box 5.2 above).

6.6 Where PGBS has become established, its key features are:

- (a) *Its orientation to the support of nationally-owned poverty reduction strategies.* It owes much to the HIPC and PRSP processes, both as a way of doing business, and in seeking to maintain the financial impetus of HIPC resources. Its potential is therefore strongly linked to the quality of the national strategy which it supports. As we have shown, there are great variations in the extent to which such strategies are, in practice, nationally owned; in the extent to which sector as well as general policies and strategies are well articulated; and in the extent to which the strategy is an operational one. While it is possible to pursue the PRSP approach without budget support, PGBS offers an exceptionally powerful instrument for focusing both government and donor attention on the development and implementation of the PRS.
- (b) *Its orientation towards the strengthening of government capacity* to promote pro-poor development, and its systemic approach to the development of capacity. This is based on the principle of using the systems that need to be strengthened.
- (c) *Its focus on results*, via the links between policy and implementation.
- (d) *Its inevitable concern with public finance management.* This stems immediately from fiduciary concerns about the resources entrusted to national PFM systems, and, more fundamentally, from the role of the budget as the key link between policy and implementation.
- (e) *Its explicit intention to improve the quality and effectiveness of aid* – immediately by advancing harmonisation and alignment, more fundamentally by promoting a virtuous circle in which improvements in the capacity of government and improvements in the quality of aid reinforce each other.

6.7 As Section 5 has shown, these features are present to varying degrees in the different study countries, and progress against the different elements is also very varied. Nevertheless, this is a recognisable and distinctive approach.

### **Strategic Biases of PGBS**

6.8 A forceful criticism is that PGBS shows a bias towards the expansion of public services, and that in doing so it neglects growth and the development of the private sector on which growth and poverty reduction depend. Put differently, PGBS is said to focus on the basic services dimension of poverty, to the neglect of income poverty. This, it is argued, is unsustainable – a recipe for aid dependency, and also inefficient because public services are expanded without regard to their quality. We discuss this critique in two stages: the quality and sustainability of public services, then the balance between public and private sectors.

#### *Focus on the Expansion of Public Services*

6.9 This part of the argument has two components: first, that expansion of public services is not a credible development strategy, and, second, that the expansion supported by PGBS has been compromised by undermining of quality. It is undoubtedly true that basic services have received a great deal of the attention and the funds associated with HIPC and PRSPs. It was natural, when freeing up funds for the budget, to focus on "pro-poor" expenditures; also that basic health and education expenditures, in particular, would be politically attractive to governments and donors alike. The MDGs, if they are to be taken seriously, also imply rapid expansion. We noted in Section 5 some of the weaknesses of the concept of pro-poor expenditures and of its application in practice (see Box 5.5 above). We also reviewed aspects of quality and efficiency in the delivery of public services: see the discussions of EQ3 (¶5.40) and EQ7 (¶5.77–¶5.83). Undoubtedly there have been serious problems in the quality of the additional public services which PGBS has helped to fund.

6.10 What does this imply for the present validity and future application of PGBS as an approach? The following considerations are relevant:

- (a) A bias towards basic public services was inevitable in first-generation PRSPs. Realistically, quantitative expansion will precede quality concerns (and, for those who previously had no access to a service, quantity is quality).
- (b) On the quality issue:
  - There are differences between donor and government preferences about quality (e.g. the study teams noted reluctance in Burkina Faso and Uganda to accept the education norms propagated by Education for All). A partnership approach offers opportunities to address the question (via monitoring, tracking surveys, analysis, and dialogue that gives a profile to the issue).
  - Such dialogue also provides opportunities to review the poverty incidence ("pro-poorness") of public services – an area where, again, donors may serve as advocates for the poor. (The quality concerns of domestic constituencies will not necessarily focus on pro-poor access; the less poor are likely to be more vocal advocates of better quality.)
  - PGBS, as part of a strategy of putting additional discretionary resources through the government budget, directly addresses some of the weaknesses of conventional aid (the inattention to recurrent costs and sustainability that often goes with a focus on capital projects). Section 5 above (e.g. ¶5.56, ¶5.40) and the country reports give examples where this has been used to advantage by governments, to pursue relevant policy initiatives and to increase operational efficiency.
- (c) The "pro-poor expenditure" approach to allocation of additional budget resources can be dangerously simplistic (Box 5.5 above).<sup>100</sup> Donors with an instinctive preference to support primary services need to consider more deeply the implications of sustainable long-term strategies – e.g. the demand for basic secondary education that is inevitable when the UPE cohorts start to complete the primary cycle, and the need for university education also to feature in a balanced growth and poverty reduction strategy (a point pressed by the Commission for Africa, 2005).
- (d) There is a question whether too much aid, in absolute terms, is being spent on public services. The point may be argued on grounds of aid dependency or in terms of undesirable macroeconomic effects (e.g. the "Dutch disease" argument that too much aid biases the exchange rate against exports). These concerns are not specific to the PGBS modality. However, there is a specific case that the focus on public services inherent in PGBS undermines growth and the private sector, as we discuss next.

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<sup>100</sup> The Tanzania study makes the same point:

The framework of "priority sectors" is itself very simplistic. The initial drafts of PRS 2 are proposing the replacement of this concept with the idea of "priority outcomes", which recognises that not all expenditure within a "priority sector" is of equal value. In the 2005/6 budget preparation process, ministries are being required to link their budget submissions explicitly to PRS "cluster strategies" which are linked to PRS outcomes. Focusing more carefully on outcomes would be a welcome improvement over according a generalised priority to whole sectors, yet even this risks being simplistic. (Booth et al 2004, ¶147.)

It notes short-term absorptive capacity as one of the key considerations (e.g. there are limits to the possibility of efficiently expanding education spending in the short term if the supply of trained teachers is a bottleneck).

6.11 *Recommendations:*

- (a) *Governments and international partners should pay more attention to the quality of basic public services and, in particular, to their poverty incidence.*
  - *A first requirement is to learn more – through monitoring of service quality, incidence and uptake (including geographical and social incidence, and the preferences of poor people themselves).*
  - *PGBS and related sector dialogues offer opportunities for governments and international partners to address such issues jointly.*
  - *Programmes to strengthen analysis and monitoring should be designed in a way that increases national and government capacity in these fields.*
- (b) *International partners and governments need to move on from simplistic "pro-poor expenditure" based expenditure allocation approaches to deeper analysis of sector and sub-sector strategies and their expenditure implications.*
  - *Again, programmes aimed at strengthening analysis and monitoring should be designed in a way that increases national and government capacity in these fields.*
- (c) *International partners, in particular, need to consider long-term financing strategies for MDGs, in terms of their sustainability, their aid-finance requirements, and the appropriate balance of expenditures across sub-sectors.*

*Bias Against the Private Sector and Growth*

6.12 Concerning the balance between expansion of social services and policy measures to address income poverty, PGBS reflects the strengths and the weaknesses of the PRSPs that it supports. It helps to support a macroeconomic environment which provides prerequisites for poverty-reducing growth, but the charge of imbalance between public service expansion and a focus on growth and income-poverty reduction is a forceful one. In assessing PGBS, a key issue is whether such a bias represents an inevitable flaw or a correctable one. (Again, the charge is as much against PRSPs in general as against PGBS in particular.)

6.13 The following considerations are relevant:

- (a) There is no suggestion that PGBS should eclipse all other modalities.
- (b) The demand for policy is not symmetrical with the demand for public expenditures. Many growth-promoting policy actions have minor expenditure costs; conversely, public services will continue to dominate public expenditures.
- (c) The study found, in the majority of country cases, an increasing, and government owned/inspired, attention to growth issues in second-generation PRSPs (see ¶5.62 above); there are corresponding signs that income-poverty measures are increasingly coming into focus in the PGBS policy dialogue.
- (d) Many of the things that a growth strategy requires (better business environment) depend on government actions and/or policy changes (rule of law, deregulation, anti-corruption measures). These are often cross-agency issues that can usefully be raised in cross-agency partnership forums, and supported by PGBS dialogue and conditionality.
- (e) Many public services and expenditures (e.g. agricultural research and extension, rural infrastructure) are directly relevant to income poverty and growth. For some (e.g. major infrastructure), project modalities may remain the best option (see the discussion of aid modalities from ¶6.60 onwards), but the challenge of ensuring sustainability (maintenance and recurrent cost provision) requires coherent planning that PGBS can help to promote. (As Africa rediscovers the importance of



infrastructure investment, it will be important not to repeat the experience of assets that crumbled because of flaws in public expenditure planning and management.)

- (f) There is scope in the dialogue around core public services, to look at options for involving non-public providers (private profit and not-for-profit sectors).
- (g) As we discuss below (¶6.60 onwards), there is much scope for explicit complementarity between PGBS and other modalities, around growth and private sector issues amongst others.
- (h) In supporting growth and private sector development (and other objectives) through other modalities, donors should have regard to the same basic aid effectiveness principles (national ownership, non-undermining of government systems etc) that have been drawn from past experience.

6.14 *Recommendation:*

*Governments and international partners should pay more explicit attention to the income poverty and growth implications of public policy and expenditures, and to the ways in which PGBS may complement other modalities in this area.*

### **PGBS and Cross-Cutting Issues**

6.15 Section 5 has reviewed the way that policy CCIs feature in PRSs and in PGBS itself (see Box 5.13). Democracy and human rights are discussed more specifically under the heading of political risks (from ¶6.92 below). Concerning the other CCIs in our TOR – gender, HIV/AIDS, environment – the country teams found that their prominence within PGBS varies for a mixture of arbitrary and pragmatic reasons. Sometimes – especially when there seems a need or opportunity to give cross-agency weight to an issue – PGBS dialogue and conditions or performance targets are used to support a CCI; at other times their promotion is deliberately left to other forums and modalities. There are many examples of complementarities between PGBS and other modalities in addressing CCIs. Similar considerations apply to other areas that have a cross-cutting character (e.g. private sector development, decentralisation). PGBS is not a substitute for all specialist CCI work, but has potential to assist in cross-sector visibility and mainstreaming, as well as harmonisation amongst donors. The PGBS focus on the national budget and core public policy processes makes it very apt for this role.

6.16 *Recommendations:*

- (a) *The potential for supporting policy cross-cutting issues through PGBS should be kept under review. Pragmatic considerations mean that different approaches will be taken in different countries and at different times – taking account of the need to avoid overloading the PGBS instrument, the scope for addressing cross-cutting issues through other instruments, and the potential to add value by exploiting complementarities between instruments.*
- (b) *More generally, global initiatives and other vertical programmes should always be integrated with national and sector planning and budgeting. (See the review of interaction between aid modalities, from ¶6.60 below.)*

### **Capacity Development**

#### *Positive Systemic Effects of PGBS*

6.17 One of the distinctive features of PGBS is its orientation towards the strengthening of government capacity (¶6.6 above). This reflects a renewed recognition that capable governance is crucial for development. At the same time, past efforts to support capacity development are seen as flawed in focusing too much on supply-driven technical assistance solutions, without enough attention to incentive structures and the demand side of capacity development. In

addition, it is recognised that aid can have debilitating effects – by setting up parallel structures and attracting capacity away from government, and by imposing additional burdens associated with donor-specific procedures.

6.18 Government capacity is a salient constraint in all the study countries, although constraints take different forms (e.g. Malawi has weak capacity across the board, while Nicaragua combines high technical capacity in some areas with an exceptionally dysfunctional bureaucracy, lacking a proper professional civil service<sup>101</sup>).

6.19 A key finding of the evaluation is that PGBS has had positive systemic effects on capacity, and that it can reinforce the effectiveness of technical assistance. As regards systemic effects, a central finding is that bringing more discretionary resources within the scope of the national planning and budgeting processes does tend to strengthen the coherence and quality of the budget process and encourage those involved to address policy and efficiency issues more effectively. As regards the link between PGBS inputs and more effective technical assistance, Uganda offers an example:

Although technical assistance and capacity building are rarely an explicit part of PGBS, they are often strongly linked to it. If technical assistance and capacity building are oriented towards reforms that feature in the policy dialogue, then their effectiveness is likely to be improved. For example, efforts to computerise the accounting system in Uganda failed in the 1990s, but today, when supported by policy dialogue and conditionality in the context of PGBS, institutional support for the introduction of an integrated financial management system in Uganda is proving more effective. (Williamson forthcoming.)

6.20 At the same time, the potential effects of PGBS on capacity are limited by a lack of more explicit government-led strategies for capacity development, and, in many cases, by a continuation of off-budget and projectised aid on a large scale. As we discuss next, public finance management and decentralisation are two areas that merit special attention in the context of capacity development through PGBS.

#### *The Centrality of Better Public Finance Management*

6.21 The most immediate, and the most important, potential effect of PGBS on state capacity is through the strengthening of public finance management, especially through its influence on the integrity of the national planning and budgeting process. Across the study countries in which PGBS was significant, the strongest PGBS effect generally noted on relevant intra-government incentives is a strengthening of the accountability of sector agencies to the central budgetary authorities, notwithstanding the room for further systemic improvement (e.g. in MTEFs, see ¶6.24 below). This provides scope for improved allocative and operational efficiency and serves as an incentive for system-wide reforms.

6.22 Public finance management is the natural core focus for PGBS because of the importance, along with strengthened (domestic and external) fiduciary accountability, of a better link from policy to the budget. This is essential for the results-orientation which is fundamental to the PRSP approach, and to good public policy in general. The capacitating effects of PGBS do not stem from discretionary and on-budget finance acting in isolation. As the example in ¶6.19 illustrates, relevant TA can have more purchase if the other inputs of PGBS are brought to bear on the demand side for improvements.

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<sup>101</sup> See footnote 37 above.

6.23 In several of the study countries (including Rwanda, Mozambique, Burkina Faso), PGBS-associated TA/CB has been concentrated on PFM and coordination in support to PFM is improving more definitely than in other areas. This partly reflects the fact that PFM is an area where it has been possible to define performance criteria more precisely (cf. the PEFA indicators, Annex D). However, another common finding is that there remains much unexploited scope for coherence and coordination in the application of PFM-related TA; a more strategic approach is required, along the lines of the DAC guidelines for a strengthened approach to PFM capacity development (OECD DAC 2005d).

6.24 The review of PGBS and policy processes (see ¶5.63) noted the importance of working towards effective MTEFs as a key to embedding policy-based budgeting. Uganda is exceptional in its well-articulated MTEF. Replicating MTEFs elsewhere is important, but not easy: it is not just a technical reform, but requires strong leadership on the government side;<sup>102</sup> aggregate fiscal discipline is a prerequisite, and strong institutional incentives are required to overcome budget fragmentation in which vested interests have developed. In several countries (e.g. Vietnam, Rwanda) efforts are under way to build up the MTEF approach at sector (and in Vietnam's case provincial) level. Strengthening of MTEF approaches is a key objective for PGBS and other donors to support in all cases.<sup>103</sup> Such support is not a matter just of TA. It should also involve bringing aid funds on-budget, and maximising the use of government systems for planning and budgeting, as well as disbursement. This is relevant at sector as well as central levels.

#### *Decentralisation*

6.25 Decentralisation is an important cross-cutting issue with implications for the coherence of overall strategies for PRS implementation. Local governments are heavily involved in basic service delivery, but their capacity is almost always weak. In Nicaragua, for example, PGBS support to the education sector is all based on decentralisation of education to local governments and on school autonomy and is therefore highly dependent on the implementation of the overall decentralisation policy. This will in particular include improving the local governments' capacity for planning and managing public expenditure as well as ensuring appropriate and working mechanisms for monitoring, transparency and accountability of public expenditure at local levels. Similar issues arise in most, if not all, of the study countries (see ¶5.58 above). Hence, capacity and PFM at local government level are key issues. In practice, because of preoccupation with national level PFM and sector strategies, local government capacity has received insufficient attention in PGBS operations. There is a danger of sector-focused approaches leading to vertical programmes that neglect requirements for horizontal coherence at local government level.

6.26 Decentralisation reforms need to be given sufficient space and attention in the PGBS dialogue, in the financial management reforms and in capacity development initiatives, both at the local government administrative and political levels and at the level of actual service delivery. PGBS has various potential roles in supporting governments' decentralisation policies. It may promote more equitable support to all regions/localities in a country through the transparent allocation of on-budget funds (hitherto most district/area based programmes have provided a very inequitable coverage). It may be a rather efficient way to channel funds to local units. Furthermore, PGBS may provide a vehicle for linking development funds, capacity building support and strong local government incentives to improve performance in core areas

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<sup>102</sup> This point is emphasised also in the Tanzania study (Booth et al 2004).

<sup>103</sup> The detailed design, and scope, of any MTEF needs to be adapted to country circumstances; it is not a prefabricated instrument to be imported.

(this theme is developed in the local government case study for Uganda – Annex 6 of the Uganda CR).

6.27 Explicit decentralisation strategies (and dialogue procedures) and local government capacity development frameworks will be useful tools in this process, as they provide clear focal points for linkages and coordination. Many of the same issues on conditionalities and modalities of PGBS resemble the discussions on the design of the most appropriate intergovernmental fiscal transfer systems, e.g. the links between grants and capacity-building support. Mutual learning from these processes could be better utilised.

#### *Recommendations on Capacity Development*

6.28 *Key directions for capacity development related to PGBS include:*

- (a) Support capacity development by using government systems; in particular accelerate moves to bring aid funds on-plan and on-budget.*
- (b) Recognise the centrality of public finance management reform (medium-term policy-based resource allocation as well as fiduciary management systems) for the development of national capacity to manage for results.*
- (c) Strengthen the policy analysis, budgeting and expenditure management capacities of line ministries as well as finance ministries, so as to enable more effective planning and budgeting processes within government.*
- (d) Pay more attention to capacity issues (including public finance management capacity) as they affect local governments.*
- (e) Seek more alignment around government-led capacity development strategies for public finance management, and for public sector management generally.*

#### **The Dangers of Overloading PGBS**

6.29 Our review of the PGBS record so far indicates that there are many things that it can (help to) do. But its potential range is itself a risk: there is a serious danger of overloading one instrument, expecting it to achieve too many things and too quickly. There are both conceptual and practical aspects to this. There are some things that an instrument such as PGBS is inherently unlikely ever to achieve. In particular it is unrealistic to expect it to effect radical institutional transformations, or change the political foundations of states and governments. Setting unrealistic objectives is a recipe for failure, and could distract from less grand, but still useful, things that PGBS can help towards. Even when focusing on what is practical, it is important not to attempt too much at once. It is important to learn from experience with the instrument before extending its scope. There are limits to the absorptive capacity for reform; overloading PGBS with targets and conditions could overwhelm even a willing government. (This has implications too for the way that performance assessment frameworks are used – see the discussion from ¶6.47 below.) In prioritising the reform focus of PGBS, it is important to remember that its ability to strengthen PFM systems is fundamental to its other effects.

6.30 *Recommendations:*

- (a) Take care not to overload PGBS, either with unrealistic objectives or with too many reform tasks. This is especially important during the early, learning, phases of PGBS development.*
- (b) The appropriate scope and focus of the PGBS instrument can only be decided in country context. In all cases, however, its central role in strengthening public expenditure management should be kept in focus.*

(See also the discussion of complementarity between budget support instruments, ¶7.13 below.)

### **The Timescale for PGBS**

6.31 The distinctive features and the potential uses of PGBS that we have described all highlight the nature of PGBS as a long-term instrument and approach. Capacity development and institutional change require stamina. Moreover, as we discuss next, the partnership on which it is premised requires a long-term relationship, based on trust, which has to be sustained. This long-term perspective colours the discussions in the remainder of Section 6 – of partnership and conditionality, the mix of aid instruments, and managing risks. It also underpins Section 7's observations on the future of PGBS (see ¶7.7 onwards).

### **Partnership and Conditionality**

#### **Introduction**

6.32 PGBS is a way of doing business – a relationship – which has to be built on a clear understanding of the motivations of both sides. A litmus test of partnership is whether it involves a genuine collaboration or the imposition of one side's preferences upon the other; here the workings of conditionality and performance assessment are crucial. The discussion is organised under the following topics: (a) donor and government interests; (b) conditionality and performance assessment; and (c) implications for trust, capacity and accountability.

#### **Donor and Government Interests**

6.33 Partnership does not require partners to have identical views or interests, but transparency about the interests of the partners is important. We comment briefly on the interests of donors, partner governments, and other stakeholders.

6.34 The limits of "old-style" conditionality are acknowledged: using aid to buy reforms from an unwilling government does not work. It is also now less easily assumed that external donors know precisely what governments should do to achieve growth, development and poverty reduction. The PRSP approach therefore embodies a doctrine of partnership, ownership and empowerment; and PGBS is essentially an instrument for applying the PRSP approach.

6.35 This does not mean that donors no longer seek influence. They still have an agenda, which includes, but is not usually confined to, poverty reduction. Through the PRSP approach and through PGBS they seek to be wiser and more effective in influencing poverty reduction. For partnership to work there must be large areas of overlap between the objectives and policy preferences of both parties. However, the poverty concerns and the policy preferences of donors are not necessarily the same as the government's. There is tension between a philosophy of "partner government autonomy" and the reality in many cases that poverty reduction is a higher priority for donors than for partner governments. Donors have to defer to their domestic stakeholders, and have basic conditions (including political conditions) for doing business with governments. Donors also have all sorts of institutional objectives associated with institutional mandates, political relationships, etc. They are simultaneously rivals and collaborators with each other; competing but also susceptible to peer pressure. Their ability to pursue consistent long-term strategies is compromised by short-term management horizons, rapid turnover of personnel (especially in overseas postings) and other aspects of institutional incentive structures (see de Renzio et al 2005).

6.36 It is important not to exaggerate the uniformity and consistency of views on the donor side. Much continuing rhetoric implies a continuing belief in the efficacy of (old-style)

conditionality (a point stressed in the Tanzania evaluation<sup>104</sup> and confirmed by our cases) and we also often found contrasting views within as well as between agencies (cf. Killick 2004).

6.37 Partner governments are also varied. It is important for their international partners to have a good understanding of the political basis of the state and government, and hence the potential scope of influence. One of this study's common findings as regards relevance and the design of PGBS was the relative weakness of donors' understanding of political contexts. It is also important for donors to have a thorough, detailed, understanding of the machinery of government of the particular government they are dealing with. International agencies' ability to contribute usefully to policy development and to technical discussions at country level is often undermined by lack of detailed understanding of such things as how a particular government's budgeting process or system of fiscal transfers actually works. Better political understanding and more detailed technical knowledge are needed to inform donor judgements about what is relevant, what is possible, and what will work.

6.38 Ownership (see Box 5.4 above) is a valuable concept in understanding why some interventions succeed and are sustained while others do not. In understanding PGBS operations in the study countries, however, the study teams found certain nuances to be important. There are different degrees of ownership: particular policies may be owned (or owned more strongly) by certain organisations, interests or individuals. And ownership (as manifested in commitment to implementation) may wax and wane over time, sometimes for quite extraneous reasons. To illustrate these points from Uganda: the initial Poverty Eradication Action Plan clearly had strong political ownership as well as technical backing within the finance ministry; later versions are technically more sophisticated but seem to have less political backing from State House; meanwhile, however, ownership of the system of medium-term budgeting, and acceptance of the need to discipline aid within it, has spread to sector ministries. In all of this, the roles of particular individuals, in the finance ministry and elsewhere, have been significant.

6.39 Moreover, government ownership and country ownership are not the same thing. This is not to say that PGBS should engage directly with other country owners in the same way as it does with government. But it is important to pay regard to wider country ownership – e.g. in seeking the participation of wider stakeholders. In more than one of the study countries, an incoming government did not accept, as it stood, an inherited poverty reduction strategy. This is a logical consequence of democracy, but there is an associated risk to PGBS if it becomes too closely identified with a particular individual or regime. A symmetrical point applies to donors: PGBS strategies are vulnerable to changes in regime or in sentiment in the home country. And ownership of PGBS as an approach is very unevenly distributed within and between aid agencies (¶6.36 above).

### **Conditionality and Performance Assessment**

6.40 The way that conditionality works is central to the understanding of PGBS. We discuss (a) the meaning of conditionality; (b) conditionality and earmarking as signals; and (c) implications for performance assessment.

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<sup>104</sup> The Tanzania evaluation noted:

- Most of the donors providing budget support do not appear to believe that its beneficial institutional effects are dependent upon a reduction in the number of external projects within the public sector.
- Most donors continue to believe strongly in the 'policy leverage' afforded by GBS. In contrast, the evaluation framework envisages the policy dialogue primarily in terms of monitoring the government's commitment to its stated policies. It sees stronger domestic accountability as being the primary driver of improved results, and GBS as a way of facilitating this process. (Lawson et al 2005a.)

### *The Meanings and Uses of Conditionality*

6.41 Conditionality is qualified by a plethora of terms: conditions, prior actions, triggers, benchmarks, indicators, fundamental principles, policy matrices, performance assessment frameworks. Conditionality may be linked to process, input, output or outcome indicators (see Box 5.3); it may be hard or soft, explicit or implicit, technical or political. It is inherently difficult to assess conditionality: counting the number of conditions may be straightforward (but only if a definition can be agreed and the conditions are explicit) but it does not reveal much that is important: the relevance and onerousness of conditions depends on the counterfactual (e.g. would the action have been carried out anyway? was the target deliberately set to be easy to reach?) and the consequences of missing a target. Standard evaluations of conditionality stop at whether agreed actions are performed, not whether they then have the effect that was expected. Assessing the real effect of conditionality by interviewing the parties involved is not straightforward either, since all have incentives to dissimulate (cf. the comments on evidence in Box 5.4). Conditionality is easier to model and analyse in simple versions (one party imposing actions on, or buying compliance from, the other), but these bear little resemblance to the complexity of PGBS in practice. As the Mozambique CR comments:

We would suggest that the term 'conditionality' itself has become questionable when the dialogue between government and partners has become so wide-ranging, with discursive debates on policies, mutually agreed targets, and mutual assessment of performance.

6.42 It is helpful to consider the purposes of conditions and indicators in the context of PGBS, especially in the light of an apparent consensus that "conditionality does not work".<sup>105</sup> Conditions (and associated performance indicators) have a number of potential roles apart from the classic function of inducing agents to do something they would not otherwise do. They may serve as signals to various parties, or as a means of prioritising, or as a means of shifting the balance of influence between agencies and actors. Conditionality cannot (for long) impose donor strategies on unwilling governments, but in areas where there is an overlap of interests, international partners and (reformers within) governments can work together towards common objectives. Agreed performance targets and conditions then serve as signals; one purpose of such signals is to reassure remote financiers that progress is being made and their funds are doing something useful. By prioritising, and setting deadlines that have consequences, such "conditionality" creates managerial, not political, pressure. It focuses on the *when* and *how*, not the *what* of reforms. If it works, it helps to maintain the pace of reforms, not to create the will to implement them. That said, there is a spectrum, not a sharp divide, between "old" and "new" conditionality, and, as noted under EQ1 (¶5.20), different parties disagree about what conditionality is for and how much it has really changed.

### *Conditionality and Earmarking as Signals*

6.43 Like many conditions attached to PGBS, earmarking may serve donors mainly as a signalling device – signals to partner governments about donor concerns and priorities, and/or to reassure home constituencies about how resources are being used. Signalling is more obviously the function of virtual earmarking, but it may also be the most definite function of "real" earmarking, where funds are tracked to a particular project or budget line, or where some other assurance of additionality is sought (cf. ¶2.4(c) above). This is because fungibility may still create a disconnect between what is ostensibly financed with aid funds, and what in practice is the marginal expenditure that they enable.

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<sup>105</sup> As Booth et al (2005) point out, the blanket statement that "conditionality does not work" was an oversimplification of the research findings:

The research literature on adjustment lending was not comprehensively damning about policy-based conditionalities. What came in for particular criticism was the performance of complex reform measures where these lacked significant domestic support.

6.44 Donors face a dilemma between affording the government complete discretion in budgeting, against seeking more or less direct influence on ("ring-fencing") the levels and shares of particular types or components of expenditure.<sup>106</sup> This is reflected, inter alia, in the persistence of virtual earmarking (and in the cases of Nicaragua and Burkina Faso by the persistent special budgetary and accounting treatment of HIPC initiative resources). Virtual earmarking has minimal transaction costs, but separate accounts and budgeting procedures do have high transaction costs and threaten the integrity of the national budget process.

6.45 The detailed dialogue and performance targets linked to PGBS offer an alternative style of influence, where international partners discuss expenditure patterns and proposals with governments. Their preferences, to the extent they are agreed with government, may be reflected directly in input targets for the budgets (shares of "pro-poor expenditure", say, to take a common but not necessarily very useful example). Or the influence may be indirect, if the actions, reform programmes or non-financial indicators that are agreed have budgetary implications. However, this does leave aid agencies with a presentational problem, in explaining simply to their stakeholders where their resources have gone and what they have achieved.<sup>107</sup> One response to this is through virtual earmarking, which may be linked to forms of sector budget support. As described in the Uganda CR, Uganda's Poverty Action Fund, a virtual fund on a grand scale, proved to be a rather effective way of allowing targeting of funds without promoting balkanisation of the national budget.<sup>108</sup> DFID's efforts to develop a standard methodology for apportioning its budget support between sectors (see Foster 2004a, 2004b; Smith and Williamson 2004<sup>109</sup>) addresses a related problem: how should an agency respond when asked how much it is spending world-wide on education, when much of its support to education is through unearmarked budget support? The symbolic, and therefore practical, importance of such signalling should not be underestimated.

6.46 *Recommendations:*

- (a) *Virtual earmarking and similar signalling devices should be assessed according to their empirical utility, not simply dismissed as theoretically sub-optimal.*
- (b) *If adopted, they should be designed so as to minimise transaction costs.*
- (c) *Aid agencies should seek common (and mutually consistent) approaches to the sector-attribution of GBS for reporting purposes.*

#### *Implications for Performance Assessment*

6.47 We noted in Box 5.3 the main different approaches to performance assessment. Much of the evolution of PGBS in the study countries has centred on efforts to refine and standardise performance assessment systems, and there is continuing debate about the merits of different approaches. It is worth distinguishing carefully between two aspects (a) what should be measured or monitored? and (b) how should disbursement decisions relate to performance assessment findings?

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<sup>106</sup> Governments (and donors indirectly) face exactly the same dilemma in specifying the uses of financial transfers to local governments.

<sup>107</sup> This reflects a more general dilemma. The most effective ways of mobilising resources (e.g. by isolating and highlighting particular problems that people can easily relate to) are often not the best ways of organising action and expenditures to address them.

<sup>108</sup> It did lead to balkanisation of grants to districts, but was at the time a great improvement over any available alternative.

<sup>109</sup> A basic challenge in such efforts is to ensure consistency across sectors and between donors. It could happen, for example, that the (notionally) "sector-earmarked" funds from different donors add up to more than the expenditure total.



6.48 What should be monitored (and by whom)? There is no dispute that results are what matter. This implies attention to outcomes and impacts. But, as a practical matter, monitoring outcomes and impacts is not a substitute for monitoring all the stages in the results chain. One of the reasons why PRSPs have typically not been very operational documents has been their failure to specify links in the causal chain from inputs to outcomes, and hence the course of action to be followed in order to achieve the results (see e.g. Booth and Nsabagasani, 2005). By extension, the Annual Progress Reviews (APRs) that are required for PRSPs also fail to provide the kind of information that is needed (by governments as well as donors) to monitor progress. The problem is exacerbated by the fact that most outcome and impact data (not least poverty data) are available only infrequently, and it takes time to be certain of long-term trends, so they are in any case deficient as evidence of year-on-year progress. Hence, despite intentions to rely as much as possible on government strategy documents and therefore to draw progress indicators from them, the shortcomings of APRs have led to the development of separate performance assessment frameworks (PAFs).<sup>110</sup>

6.49 There has been much debate about the implications of PAFs. Concerns include:

- (a) That the existence of a PAF separate from the PRSP undermines ownership and emphasises accountability to donors, thus undermining partnership.
- (b) That the proliferation of indicators in PAFs reflects a lack of donor harmonisation, increases transaction costs, and indicates a continuation – and even expansion – of traditional conditionality.
- (c) That the use of process indicators in particular (e.g. as trigger conditions for World Bank PRSCs), besides representing unabated conditionality, reflects donor attempts to micro-manage the development process, instead of leaving governments space to make and follow their own strategies. This is one of the arguments for outcome indicators as an alternative.

6.50 These are all complex issues, but our perspectives, drawing on findings from the study countries, are as follows:

- (a) The initiative to develop specific performance assessment frameworks linked to budget support came from donors (¶5.9). It is important that PAFs should not persist as separate, donor-oriented mechanisms of accountability. However, PRSPs need to be operational if they are to be useful to governments, and, as we noted in the Section 5 review of accountability (¶5.48), the performance monitoring interests of donors do not necessarily run counter to those of governments. There is much scope to integrate PAFs with new generations of PRSPs (see the discussion of feedback and learning in Section 5, ¶5.93 onwards). For example, the PAF in Mozambique is jointly used – it also goes to the National Assembly as an appendix to the report on progress against the annual economic and social plan. In Uganda, the latest PRSP (PEAP) includes an expanded policy matrix on which future PRSCs will be based.
- (b) While alignment of PAFs with government strategy documents seems obviously desirable, it may lead to an increase in the number of indicators included. How much this matters depends on how such indicators are chosen, and on how demanding donors are – both in terms of frequency and detail of monitoring, and in terms of setting up indicators as disbursement-linked conditions. It is true that in several of the study countries, early PAFs tended to become an agglomeration of different donors' favourite indicators, instead of a streamlining. A guiding principle should be to link PAFs more systematically to strategies for developing national

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<sup>110</sup> See Booth et al (2005) for a detailed and perceptive analysis.

M&E capacity. It is also important to develop links between central and sector dialogue and monitoring, so that the system does not become top-heavy, with too many indicators loaded into a single central PAF (the "nesting" of sector conditions within the Uganda PRSC matrix has been an effective approach: one line in the PRSC matrix refers to satisfactory progress in, say, the education sector dialogue).

- (c) It should be clear from our comments at ¶6.48 above, that there is certainly a place for monitoring process indicators; governments themselves need to do it as part of following through on their own strategies. Having such indicators imposed by donors would be incompatible with the partnership approach, but they are perfectly appropriate as part of a system of joint performance monitoring. Whether they can be characterised as such depends on how the indicators are selected and on the links from performance assessment to disbursement, which we consider next.

6.51 How should disbursement decisions relate to performance assessment findings? There are three main decision-making systems (Box 5.4) – disbursement based on fulfilment of "prior actions", disbursement based on an overall assessment of performance, and a system of fixed and variable tranches, in which the fixed tranche is released as long as fundamental national policy (e.g. PRSP), macroeconomic and PFM requirements are adhered to, and the variable tranche is linked to performance against specific indicators (the EC is the main practitioner of this system – see European Commission 2005a). Commonly, these systems coexist, with different donors making decisions by applying their own rules or judgements to the information provided through a joint PAF. This pragmatic balance of harmonisation and diversity is reflected in the Paris Declaration's consensus guidelines on alignment – see Box 6.1. The multiplicity of decision rules, as such, did not seem to be a significant concern for partner governments in the study countries. Their more fundamental concern was whether PGBS disbursements as a whole were reliable over the medium to longer term (we take this up later as an aspect of risk management, see ¶6.72 onwards).

6.52 Nevertheless, the extent and nature of the conditionality involved in the various disbursement systems is important. A key issue is whether conditions/indicators in the matrices are regarded primarily as signals or as incentives. Linking disbursements to specific policy actions does raise issues of micro-management, policy interference and ownership. The extent to which policy conditions used as prior actions/triggers in PRSCs/PAFs are owned by government depends on a host of complex factors, amongst which government policy capacity is crucial. Where it works well, the system of prior actions serves as a combination of signalling with managerial pressures (see ¶6.42 and ¶6.43 above). The approach of linking (some) disbursements to outcome indicators is intended to provide incentives in a different way – to leave governments free to choose their own ways of achieving agreed outcomes, but to strengthen incentives for pursuing and monitoring those outcomes. Its advocates contend that the system aids transparency and predictability, since the relationship between disbursements and performance against specific indicators is spelt out in advance. However, the causal links between donor inputs and the outcomes rewarded are rather tenuous (Booth et al 2005), and there is a risk that reporting, rather than performing, becomes the immediate preoccupation.<sup>111</sup> At the same time, such indicators can also serve a signalling function, both to the partner government and to donor stakeholders. It is important that, when used, they are chosen with a

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<sup>111</sup> The Burkina Faso CR noted:

Indeed, the persistent quest for monitoring and evaluation indicators comprises a double risk. Firstly, there is the risk of creating a system which is parallel to the statistics system in place. Secondly, too much focus on the reports of results indicators agreed between the government and international partners can transform these reports into ends in themselves. This would serve international partners in justifying disbursement decisions and authorities in avoiding a potential decrease of aid, which is applicable according to the system of variable tranches, whereas information on performance should mainly enable improved decision-making.

view to predictability, consistency with national monitoring systems, and low transaction costs of reporting. It is not plausible that outcome indicators could obviate the need for other forms of assessment on which to base disbursement decisions.

**Box 6.1: Paris Declaration (Alignment and Managing for Results)**

**Alignment with Partner Strategies:**

Donors commit to:

- Draw conditions, whenever possible, from a partner's national development strategy or its annual review of progress in implementing this strategy. Other conditions would be included only when a sound justification exists and would be undertaken transparently and in close consultation with other donors and stakeholders.
- Link funding to a single framework of conditions and/or a manageable set of indicators derived from the national development strategy. This does not mean that all donors have identical conditions, but that each donor's conditions should be derived from a common streamlined framework aimed at achieving lasting results.

**Managing for Results:**

Partner countries commit to:

- Strengthen the linkages between national development strategies and annual and multi-annual budget processes.
- Endeavour to establish results-oriented reporting and assessment frameworks that monitor progress against key dimensions of the national and sector development strategies and that these frameworks should track a manageable number of indicators for which data are cost-effectively available. (Indicator 11)

Donors commit to:

- Link country programming and resources to results and align them with effective partner country performance assessment frameworks, refraining from requesting the introduction of performance indicators that are not consistent with partners' national development strategies.
- Work with partner countries to rely, as far as possible, on partner countries' results-oriented reporting and monitoring frameworks.
- Harmonise their monitoring and reporting requirements, and, until they can rely more extensively on partner countries' statistical, monitoring and evaluation systems, [work] with partner countries to the maximum extent possible on joint formats for periodic reporting.

Source: extracted from High Level Forum (2005a)

6.53 The question of split tranches is logically distinct from the types of indicator on which disbursement is based. In practice, there is much common ground between the three main approaches, since all agree that the bulk of PGBS funding should be stable in the short run. Where a within-year split tranche is used, it comprises only a minor proportion and the fixed tranche dominates. The World Bank system allows for disbursement at low-case, base-case, and high-case levels, depending on overall country performance, with adjustments taking place between rather than within years. The less formalised bilateral approaches described by Lawson et al (2005b) are implicitly similar. From our perspective on the nature of partnership and the role of conditionality, we take the view that it would be undesirable for the bulk of annual PGBS disbursements to be linked in any mechanical way to outcome indicators. Decisions to

increase or reduce levels of PGBS support should mainly be based on medium-term assessments of overall performance.<sup>112</sup>

6.54 *Recommendations:*

- (a) *Partner governments and donors should implement the Paris Declaration commitments with respect to alignment and managing for results.*
- (b) *Take care that disbursement-linked conditions are kept to a minimum and are genuinely agreed with government.*
- (c) *Ensure that performance assessment systems address all links in the results chain, so as to serve the management and monitoring of the implementation of strategies, as well as the monitoring of results.*
- (d) *Decisions to increase or reduce levels of PGBS support should mainly be based on medium-term assessments of overall performance.*

### **Implications for Trust, Capacities and Joint Accountability**

#### *Trust*

6.55 It is impossible to overlook the role of trust in the adoption of PGBS and in its subsequent performance. Trust derives from the entire aid relationship: it is not segmented according to aid modality. The bilaterals who initiated what has developed into Mozambique's system of PGBS could draw on a long-term relationship, sustained through difficult times, with the country's leaders. Donors' confidence in key individuals in Uganda was crucial. Their degree of trust in the political leadership is a dividing line between PGBS and non-PGBS donors in Rwanda. In the same vein, decisions to commence PGBS seem to have been based, not on any absolute benchmarks of performance, but on trust that improvements in PFM and governance standards would continue. Governments that open up their policy-making processes to donor participation themselves display trust. There are different degrees of reciprocal trust within the donor community. The sustainability of the partnership on which PGBS rests depends on the maintenance and reinforcement of trust among the partners. And crises in PGBS relationships are commonly linked to a decline in the level of trust between the principals involved. The importance of trust has implications for the design of conditionality and mechanisms for dialogue, for the capacities and skills needed on all sides, and for the forms of accountability between the partners.

#### *Donor Capacities*

6.56 A partnership approach makes particular demands on donor capacities. It enhances the importance of work in-country, allied to a more than superficial understanding of the political and social context, and of the machinery of government. It requires a high level of interpersonal skills, and ability to take a long-term view and leave space for partner autonomy. The country study teams found many examples of high quality performance (the roles of heads of cooperation are especially important), but also shortcomings that reflected institutional more than individual weaknesses. Rapid turnover of international staff, poor institutional memory, and insufficient understanding of local detail to make a real contribution to detailed policy discussion were frequently seen as weaknesses from a government perspective. The Paris Declaration rightly identifies as a "remaining challenge": *Insufficient delegation of authority to donors' field*

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<sup>112</sup> The Tanzania study concludes:

Results should be monitored and interpreted to help determine medium term decisions over the value of future GBS operations but should have no influence on annual disbursements. ... The point here is that results must be part of the overall assessment on whether GBS is a good investment but it is inappropriate to do this annually. The difficulties of choosing the right indicators and interpreting annual changes are reduced when a medium term perspective and a wider set of indicators is adopted (Booth et al 2004:153).

staff, and inadequate attention to incentives for effective development partnerships between donors and partner countries. (High Level Forum 2005a; see also de Renzio et al 2005.)

#### *Government Capacities*

6.57 On the government side too, partnership approaches make heavy demands on what is often a narrow band of committed senior and middle level public servants. There may be additional demands on policy and negotiation skills (not only with donors, but amongst government agencies) and the capacity of the finance/planning ministry is often pivotal, both in facing the donors and in managing key policy and budget processes. It is important for international partners to be frugal and focused in their demands on senior government time. In seeking to bolster capacity of the finance/planning ministry, donors and governments should not neglect the need also for sector ministry capacity to engage meaningfully with the government's central agencies in the processes of planning and budgeting. Limitations on both donor and government capacities reinforce the need to avoid overloading the PGBS instrument, especially during its early development.

#### *Implications for Accountability*

6.58 Collaboration in policy development and implementation requires not only mutual accountability for what each party commits to the partnership (cf. Box 5.11), but also joint accountability for its results. It would be invidious if international partners, having jointly devised a strategy, were to penalise the government for a strategy that fails to yield jointly-expected results. The onus is on both parties to continue to learn from experience without disincentives to candour. Joint reviews of aid performance against the Paris Declaration benchmarks (and others agreed at country level) offer a good way forward for countries which have not yet established mutual accountability mechanisms.

#### 6.59 *Recommendations:*

- (a) *Donors who engage in PGBS should do so on the basis that it is a long-term endeavour in which both sides need to build up and sustain trust and track records of reliability.*
- (b) *Donors engaged in PGBS should increase the in-country discretion afforded to their local offices, strengthen their understanding of local political and administrative detail, and seek greater continuity in staffing.*
- (c) *Support to strengthening government systems requires attention to both the supply and the demand aspects of capacity; while strengthening the capacity of finance ministries and other central agencies is essential, there needs to be a balance between central and sectoral capacity development.*
- (d) *The concepts of mutual accountability and joint accountability are important. Independent monitoring of aid performance (as pioneered in Tanzania) could play an important role, and should incorporate monitoring of the Paris Declaration benchmarks.*

## **PGBS and Other Aid Modalities**

### **Introduction**

6.60 This study's TOR required an evaluation of GBS, not a comparative evaluation of different aid modalities. In any case, discussion in abstract terms about whether one modality is "better" than others is rather sterile. Different modalities have different strengths, and we would not expect any one way of doing business to be better than others for all purposes and in all circumstances. At the same time, a conscious effort to improve the effectiveness of aid is one of

the distinctive characteristics of PGBS (see ¶6.6 above). The study teams found that interactions between PGBS and other aid instruments are important in understanding its successes and its limitations in practice, and therefore offer some lessons about its future use and effectiveness. An underlying challenge is to optimise aid portfolios, taking account of complementarities between different instruments. As expressed in the Paris Declaration:

We acknowledge that enhancing the effectiveness of aid is feasible and necessary across all aid modalities. In determining the most effective modalities of aid delivery, we will be guided by development strategies and priorities established by partner countries. Individually and collectively, we will choose and design appropriate and complementary modalities so as to maximise their combined effectiveness. (High Level Forum 2005a, emphasis added.)

6.61 Under this topic we first summarise the study's findings on the interactions between PGBS and other forms of aid. We then review government and donor perspectives on the use of PGBS. Finally we draw some implications.

6.62 Many of the study's findings about PGBS as an approach also apply more generally to programme-based approaches (PBAs) at other levels, since they operate on common principles of ownership, alignment, harmonisation, and systemic capacity building (Alba and Lavergne 2003a). Also, there are important issues about the *style* in which different modalities operate, not just simple choices between modalities.

### Country Findings on Interaction Between Modalities

6.63 The following main interactions between PGBS and other aid modalities were found by the country studies:

- (a) In all cases, PGBS had a significant influence on harmonisation and alignment (¶5.30). This influence extended across international partners and aid modalities and contributed to enhanced coherence across modalities.
- (b) PGBS effects on the efficiency of government budgeting had further positive effects on overall allocative efficiency, as flexibility in the allocation of PGBS could be used to offset rigidities in the allocation of earmarked and off-budget aid (¶5.40).
- (c) PGBS also had direct positive effects on other aid through its contributions to operational efficiency. In allowing a better balance between recurrent and capital expenditure, it can increase the returns to other capital projects. By increasing the discretionary funds available, PGBS made it easier to meet counterpart funding requirements of projects in their implementation phase (¶5.40).
- (d) The effect of PGBS in promoting greater coherence between sectors and providing an incentive for policy formulation at sector level (¶5.55) can improve the environment for all forms of aid.
- (e) Dialogue and conditionality linked to PGBS can complement other work on sector and cross-cutting issues and vice versa (¶5.101).
- (f) To the extent that PGBS-related capacity development has strengthened PFM systems (¶5.46) and accountability (¶5.49), it benefits all modalities using those systems, and encourages their wider use. In some cases there was a demonstration effect with PGBS encouraging other donors to experiment with the use of government systems.
- (g) And PGBS has had synergy with project modalities supporting PFM development, although this has not been exploited to its full potential (¶5.50–¶5.51).
- (h) On the other hand, potential effects of PGBS on transaction costs (¶5.41–¶5.42), on budget transparency (Box 5.7), and on allocative and operational efficiency were reduced in cases where large flows of aid remained off-budget and un-

integrated with national planning and budgeting procedures. This is partly because of the continuing direct consequences of modalities running in parallel, and partly because it limits the scale effects of PGBS.

6.64 The balance between aid modalities is not uniform across sectors. Where sectors remain dominated by off-budget funding and by free-standing aid projects, the potential systemic effects of PGBS in strengthening the planning and budget process are diluted. (This was highlighted as an issue for the agriculture sector in the Tanzania evaluation.) Vertical funds can undermine sector coherence even when nominally integrated into sector planning. Again this was an apparent effect of global health funding in Uganda, despite the Uganda government's strong stand on integrating all aid, global funds included, into national and sectoral expenditure ceilings.

6.65 As noted in Box 5.2, the Tanzania GBS evaluation was asked to pay special attention to the role of sector basket funds vis-à-vis GBS. Sector basket funds similar to those described for Tanzania have been significant in a number of the main study countries (notably Mozambique and Burkina Faso); by contrast, sector approaches in Uganda have systematically operated through government disbursement channels rather than as separate pooled funds. We would endorse the conclusions of the Tanzania study (see Box 6.2) as widely relevant.

**Box 6.2: Sector Basket Funds (Conclusions of the Tanzania Evaluation)**

- Firstly, a distinction needs to be drawn between a sector-wide approach as a method of organising dialogue, planning interventions within a sector and monitoring results and a common basket fund as a distinct financing modality. The need for a SWAp does not imply the need for a common basket fund.
- This is an important distinction because Tanzania needs SWAps: there is an urgent need to improve the structures for policy-making, planning and dialogue at the sector level. But these processes should be structured by government and the main axis of dialogue should be between the sector ministry and Ministry of Finance, with development partners and other stakeholders acting as interested observers/ advisers. This is a very different structure to that which typically emerges around common basket funds, where the dialogue is between the sector ministry and the development partners and where the voice of the latter is disproportionately loud.
- In practice, common basket funds have been used to establish unnecessary parallel financing mechanisms, which undermines efficiency, as well as the integrity of government's own systems.

Source: Booth et al 2004, ¶170, ¶509.

**Government and Donor Preferences on Aid Modalities**

*Government Preferences*

6.66 Uganda is the most explicit of the study countries in stating its preferences between different aid modalities. Its Partnership Principles are incorporated in the PEAP (PRSP) and rank unearmarked budget support at the top of its preferences. Some other countries (e.g. Mozambique, Rwanda) have expressed a desire to increase the proportion of budget support, but none has specified a desired ratio or spurned offers of aid under other modalities.<sup>113</sup> There are different attitudes across government agencies. Sector ministries are sometimes ambivalent: welcoming in principle the idea of using government systems but expressing reservations about the capacity of the finance ministry to ensure a regular flow of funds or to

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<sup>113</sup> There is a Tanzania Assistance Strategy which articulates the objectives of budget support, but it contains no statement regarding the relative role of budget support in relation to projects. (Booth et al 2004.)

protect key budget lines (e.g. drugs) currently covered directly by donors. There are vested interests, too, in the parallel management units funded by aid, and in the opportunities for personal gain that may be attached to traditional aid modalities.

#### *Donor Preferences*

6.67 Aid agencies vary markedly in their preferences, ranging from sceptics to enthusiasts for budget support (there are enthusiasts and sceptics within aid agencies too – see ¶6.36 above). However, all donors in practice adopt a portfolio approach to their country programmes. They seek a balance of topics and modalities, and offsetting risks is an important consideration in the composition of the portfolio. Even the more enthusiastic proponents of PGBS have stopped short of committing all their funds to one modality. There are interesting moves in several study countries (e.g. Rwanda, Vietnam) to seek budget or sector support modalities of more limited scope. The SPA workshop on sector budget support (October 2005) noted that: *Many donors find that SBS facilitates a deeper and broader technical engagement with sector policy issues, and a more effective sector dialogue and with a broader range of sector stakeholders than is possible through GBS.* Donors make a similar case to continue working at local government level in Mozambique. In Vietnam, DFID is using targeted budget support to increase funding for a national targeted poverty programme. There are positive reasons for these alternative programme-based approaches, but they also reflect a sense that PGBS is politically vulnerable by virtue of identifying the donor with everything the government does.<sup>114</sup> As already noted (¶6.45) donors' ability to explain and justify their PGBS involvement to home constituencies is a crucial determinant of sustainability. This partly explains continuing interest in forms of virtual earmarking, the competing attraction of (genuine) sector budget support, and some agencies' preference for automatic links between outcome indicators and disbursements.

#### **Implications**

6.68 Potential complementarities between aid modalities are highly significant, but they are not yet systematically factored in to aid management strategies, either at country level or at the level of individual donor portfolios. One consequence is what the Paris Declaration refers to as the need to deliver increased aid in *ways that rationalise the often excessive fragmentation of donor activities at the country and sector levels.*<sup>115</sup> Some interesting work on the principles of matching aid modalities to circumstance has been done (see, recently, Ohno and Niiya 2004), and discussion about the choice of modalities has become more nuanced. The Tanzania GBS evaluation offered some sensible suggestions as to when project aid is a more appropriate modality (see Box 6.3). The topic is explicitly under review by government and donors in Vietnam, through a Partnership Group on Aid Effectiveness, but there is a dearth of government-led aid management strategies that address this issue. Responses to the Paris Declaration, and the initiation of Joint (donor) Assistance Strategies in a number of countries (including Uganda and Tanzania) may increase attention to aid portfolios.

6.69 Several of this evaluation's country studies recommend the development of more explicit portfolio management strategies. Thus, from the Mozambique CR:

PGBS in Mozambique also marked a shift between aid modalities: from project and sector basket support. However, the Joint Programme was never exclusively about general budget support but an array of instruments. From the outset, it was concerned with “programme aid”, including balance of payments support and sector support, although the basic condition of membership was that partners contributed to GBS and this has been the principal focus.

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<sup>114</sup> Also, a sense that having a variety of budget support instruments is less risky (for both parties) than committing the same amount of funds to a single instrument.

<sup>115</sup> See Munro 2005 for a sceptical review of the rationales for greater focus.



The inclusive nature of the Joint Programme brings into the debate awareness of the possibility that alternative aid modalities present complementary advantages. However, we would suggest that there have been some limitations on the degree to which opportunities for learning have been seized:

- Although donors and government measure performance against the PAF output, outcome and effect indicators, so far as we know, they do not consider the mechanisms by which PGBS specifically can support government in achieving these targets.
- More generally, it seems that different aid modalities are tolerated or understood rather than being compared for their respective advantages and the proportion of funds that might be allocated through each. The decision under the Joint Review 2005 that government would develop an aid policy may open up this issue.

**Box 6.3: Suggested Roles for Project Aid (from Tanzania GBS Evaluation)**

The Tanzania GBS Evaluation (Booth et al 2004, drawing on the 2002 report of the IMG) proposed the following roles for project aid:

- Projects are likely to be the best form of support to entities outside of the public sector, such as NGOs and private sector associations, to undertake actions which would not normally be financed by government.
- Within the public sector, projects may be appropriate for mutually agreed activities where a Development Partner is better placed – technically or administratively, to manage the project on behalf of government, for example:
  - Technical assistance projects
  - Large scale infrastructure projects
  - “Piloting” projects, where particular service delivery innovations need to be tested before their mainstreaming by government – for example, new approaches to agricultural extension, to road safety or to teaching science.
- Within the public sector, projects may also be appropriate as an ad hoc response to a narrowly specified, perhaps transitory need. For example, in Tanzania, the change management process needed for local government reform has effectively been managed as a project, financed through a common basket fund.
- Wherever aid projects are used to finance government activities, it is important that these should be planned as part of a coherent sector strategy and reflected in the budget. Thus, the principles of the sector-wide approach represent a good framework for managing project support alongside domestically financed activities. The Tanzanian roads sector provides a good example of this.
- Core service delivery functions are typically best financed through the national budget through domestic revenues and general budget support.

6.70 An essential part of an aid management strategy would be to set guidelines for the level and use of budget support itself. The Tanzania study spells out the issues:

Alongside a new [government] policy on projects and Common Basket Funds, we are also recommending a long-term policy on GBS. It is not enough to state that there should be more GBS. How much more? At what point will the level of GBS start to pose serious risks for sustainability? When will it begin to undermine political and administrative incentives to raise domestic revenues? When will it start to create unmanageable monetary sterilisation problems or an unacceptable risk of Dutch Disease? These are all unresolved issues on which the Government ought to develop a clear position (Booth et al 2004, ¶510).

6.71 *Recommendations:*

- (a) *International partners and governments, generally and at country (and sector) level, should develop strategies to optimise complementarities between aid instruments.*

- (b) *These should consider, inter alia, the transaction cost implications of existing and proposed configurations, and the available and desirable levels of harmonisation among donors.*
- (c) *Aid strategies should include explicit proposals for the use of budget support itself.*

## **Managing Risks**

### **Introduction**

6.72 Risks are a prominent concern in the aid portfolio choices just discussed. Risk, and risk mitigation, are also crucial in the design and management of PGBS. We consider in turn (a) macroeconomic risks; (b) implications for domestic revenue and sustainability; (c) fiduciary risks and corruption; (d) political risks; and (e) predictability and the management of risk.

### **Macroeconomic Conditionality**

6.73 Macroeconomic stability is seen as a prerequisite for poverty reduction, and, on the whole, PGBS donors are content to leave the macroeconomic dialogue at country level to the leadership of the IMF, in the context of its PRGF facility. The basic conditions for PGBS usually include a specific or implied cross-link to the PRGF conditions. As long as the country remains on track with its IMF programme there is no difficulty. But risks of unpredictability may be increased in two ways. First, and especially if the cross-link is rigidly expressed or interpreted, even a technical breach, or a bureaucratic delay in the IMF's formal endorsement, may cause the disbursement of PGBS to be delayed, with adverse consequences for government liquidity and domestic borrowing and for the implementation of the budget. Second, to the extent that aid is reassigned from a project modality to budget support, the recipient's vulnerability is increased. Continued disbursement of project aid would not have been affected in the short term, but budget support that is intended to fulfil the same purpose becomes hostage to IMF on-track status, and creates a danger of magnifying an initial deviation, possibly generating an immediate and disproportionate response to a minor or technical breach of macroeconomic conditions.

6.74 The answer to the first problem is to make the link between PGBS instruments and IMF on-track status a less mechanistic one. The IMF has recognised the advantages in separating its signalling role from its own financial facility (IMF 2005a). Instead of automatically echoing the response that the IMF itself is obliged to make, other donors could take a separate decision, with a cue from the IMF, as to whether the breach involved would justify a suspension or tapering off of funding, and over what time scale. The criteria for such a decision need to take account of the second part of the problem. If, for example, PGBS is in part a deliberate strategy to fund part of the government's recurrent budget over an extended period, it would be important to guarantee those funds except in an extreme situation. The issue of appropriate long-term instruments for long-term funding is discussed further in ¶6.97 below.

6.75 *Recommendations:*

- (a) *Retain the IMF role in monitoring, reporting and advising on macroeconomic performance ..*
- (b) *.. but avoid a mechanistic yoking of all PGBS funds to the IMF's own conditions. Design a graduated response procedure that takes account of the budgetary purposes of PGBS funding as well as the macroeconomic implications of interruptions.*

### **Domestic Revenue and Sustainability**

6.76 For the short period of PGBS disbursement under review, the study found no evidence of a reduction in revenue effort in response to PGBS flows. There remains the possibility that an assured flow of PGBS, other things equal, could lead to a reduction in revenue effort over the long term. But an available response, already in place, is to accompany PGBS with direct measures to strengthen revenue institutions in the assisted countries, and to include revenue performance among the indicators monitored (cf. Clements et al 2004).

6.77 *Recommendation:*

*(Continue to) accompany PGBS with technical support to strengthen revenue agencies and monitor revenue targets.*

### **Fiduciary Risks and Corruption**

#### *Assessing and Managing Fiduciary Risks*

6.78 Fiduciary risks are commonly defined as the risk that funds are not used for the intended purpose, do not achieve value for money, or are not properly accounted for.<sup>116</sup> Corruption is one of the possible sources of fiduciary risk. The channelling of aid funds through government budgets has created more interest in the fiduciary standards of public finance management. However, the issue is much wider than donors' need for assurance that funds channelled through the budget will not be diverted, wasted or unaccounted for. Donors are not the only stakeholders who are vulnerable to fiduciary risk in the use of public funds: the partner country's citizens, not least the poor, are the primary victims, and so the strengthening of PFM has directly developmental benefits. Moreover, there is a two-way relationship: on the one hand budget support (among other forms of aid) is vulnerable to weaknesses in PFM systems; on the other hand the ways in which aid is delivered may strengthen or weaken those systems, with implications for all public expenditures.

6.79 Aid agency attitudes to fiduciary risk have become more holistic over the period under review. The agencies that participate in PGBS tend to recognise that the comfort associated with separate controls and "ring-fencing" for aid funds has limits. It does not address the fungibility of such support, and nor does it address the fiduciary risks to public expenditures as a whole. PGBS donors argue that operating through government systems increases their ability to demand better accountability of all public resources; they do directly address issues of accounting, transparency and audit in the information they demand for monitoring of PGBS and public performance in general, in the conditionalities linked to PGBS and in the TA and capacity building programmes with which it is accompanied. Our country case studies confirm that PGBS plays a valuable role in strengthening public finance management; see especially the overviews in Section 5 above of PGBS effects on public expenditures (¶5.31 onwards) and on planning and budgeting systems (¶5.44 onwards).

6.80 There have been important developments too in agreeing common PFM diagnostics (most notably the PEFA indicators – see Annex D) and in conducting PFM diagnostic work jointly, among donors and in collaboration with partner governments. Lessons of experience in seeking to strengthening public finance management capacity are embodied in the proposed "Strengthened Approach" which forms part of the second volume of OECD DAC guidelines for effective aid delivery (OECD DAC 2005d).

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<sup>116</sup> This is the DFID definition, now widely adopted (see e.g. DFID 2004b).

6.81 Donors have not mechanically applied universal minimum standards of PFM ("thresholds") for the commencement of PGBS (see Section 5, ¶5.16). There are good reasons to adopt a more pragmatic, case-by-case assessment: benchmarking of performance is not an exact science (Annex D notes that a number of assessments have been retrospectively revised); there are many dimensions of PFM that need to be balanced in any assessment; and risks need to be balanced against potential benefits. Providing budget support is not a simple yes/no decision: there is also the question of the scale of budget support, and the conditions (including fiduciary safeguards) to be attached to it. A key consideration is the likelihood of improvements in PFM standards, and the potential for the PGBS package to assist in this process. In practice, the credibility of partner countries' PFM reform efforts has been a decisive consideration. It is unlikely, for example, that either Mozambique, because of weak overall PFM standards, or Rwanda, for lack of a post-conflict track record, would have qualified for PGBS under a "threshold" approach, but in both cases experiences with PGBS have been positive, and it has helped to accelerate and reinforce reforms in public finance management.

#### *Corruption and Budget Support*

6.82 The Paris Declaration highlights as a "remaining challenge":

Corruption and lack of transparency, which erode public support, impede effective resource mobilisation and allocation and divert resources away from activities that are vital for poverty reduction and sustainable economic development. Where corruption exists, it inhibits donors from relying on partner country systems. (High Level Forum 2005a.)

6.83 It is often assumed that budget support is more susceptible to diversion than other forms of aid<sup>117</sup> but this is not in fact self-evident, for several reasons. First, fungibility can affect all forms of aid. Even aid funds that are earmarked to specific uses (whether to projects or to budget lines) may be offset by allocations of government revenues to other uses; the earmarking does not guarantee additionality. Second, other forms of aid are also vulnerable to corruption, sometimes in quite subtle ways (see Box 6.4). Third, the vulnerability of budget support itself is influenced by the safeguards that accompany it. Budget support donors seek safeguards at two levels, by monitoring (and seeking to strengthen) the government disbursement and procurement systems through which implementation takes place, and also by monitoring government expenditures at an aggregate level.

6.84 Corruption has become a matter of increased concern to the donor community over the evaluation period, reflecting heightened interest in the relationships between governance and development as well as the advocacy of agencies like Transparency International. Interest stems from the direct risks posed to donor funds but also from the harmful effects corruption is believed to have on growth and on the welfare of the poor. Increasingly stringent approaches towards corruption by the World Bank and other IFIs, work on corruption by the DAC's Governance Network (OECD DAC 2003a, 2005a), and a joint research programme by the Utstein group of donors are all manifestations of this heightened concern.<sup>118</sup>

6.85 The deep political and economic roots, and the political entanglements, of corruption are commonly noted. Thomas and Barkan (1998) identified a syndrome of *weak states, underdeveloped private sectors, a view of the state as a vehicle for the accumulation of wealth, the prevalence of patronage politics, and a small pool of elites with close connections* where corruption thrives (and where Western definitions of corruption may be hard to enforce, because they depend on a clear demarcation between public and private spheres that is not applied).

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<sup>117</sup> See, for example, Barkan (2004) and Kolstad (2005a, 2005b).

<sup>118</sup> See the Utstein Anti-Corruption Resource Centre at [www.u4.no](http://www.u4.no).

Political corruption (*corruption that is linked to political finance as opposed to corruption for the purposes of direct personal enrichment, ibid.*) may be spurred by electoral competition, even though, in the long run, democratic accountability is viewed as a safeguard.

#### **Box 6.4: Some Interactions between Aid and Corruption**

This box illustrates some of the influences of corruption on aid and vice versa. Aid may be affected by corruption both directly and indirectly, and the way in which aid is delivered is itself an influence on the environment for corruption in the recipient country.

##### **Influences of corruption on aid**

Corruption can, of course, lead to the direct misuse or diversion of aid funds during programme or project implementation. But opportunities for corruption can affect every stage of the project cycle from project selection through design, procurement, implementation, financial management, to evaluation (U4 2005). Thus, satisfactory audit reports for project aid are not a complete guarantee that all funds have been put to proper public purposes. For example, the third (procurement) volume of the OECD DAC good practice guidelines for aid delivery notes:

The impact of corruption in procurement extends considerably further than increasing the cost to government of particular projects. Comparative research has demonstrated that high levels of corruption work to push governments to devote a higher proportion of their spending to capital projects, since procurement in those projects offers the greatest opportunity for public officials and private parties to capture corruption revenues. In this way, procurement systems that are beset by corruption have a particularly destructive impact on the effectiveness of public spending since they act to promote excessive public investment at the same time that they reduce the benefit the country derives from those investments. (OECD DAC 2005e.)

##### **Influences of aid on the environment for corruption**

A study of revenue agencies and corruption draws attention to aid agencies who "preach morality but practice tax avoidance":

One factor that has tended to reduce revenues and created profound distortions in the resource allocation mechanism of the market system is the tax exemption on transactions associated with foreign development assistance. (Fjelstad 2005.)

The OECD DAC forum on corruption noted that:

Tied aid creates a non-competitive contracting environment by committing recipients of financial assistance to specific suppliers from donor countries, increasing the risk of corruption. (OECD DAC 2005a, ¶14.)

##### **Some side-effects of safeguards**

Adoption of separate disbursement systems for aid (for safeguard or other reasons) may undermine accountability within the government system. Isaksen (2005), drawing on a study of supreme audit institutions (SAIs) in Malawi, Uganda and Tanzania, reports:

The problem of off-budget donor funds going straight to ministries has remained, making it hard for the audit institutions to keep track of and audit these expenditures. This has contributed to undermining the authority of the SAIs.

In several of the study countries it was noted that off-budget funding arrangements and the multiplicity of non-government disbursement and procurement procedures operating in parallel have tended to weaken the government systems at the same time as complicating the fiduciary oversight of aid funds.

As with public finance management generally, the DAC Governance Network has noted the limitations of a "ring-fencing" approach to corruption:

Donor agencies, including the IFIs, have made a number of efforts to protect grant and loan funds from corruption. At the same time there is a growing realisation that protecting donor funds is of limited use unless sustainable changes are made to the system and institutions of partner countries. (OECD DAC 2003a.)

6.86 There are inherent problems in measuring corruption:

It is always difficult to estimate the extent of an illegal activity. ... In fact, we do not have precise information on the actual level of corruption within any country. ... A further challenge is to distinguish the differences in the level of corruption across sectors, and among different state institutions. The composite indexes are not of much help in this respect. (Søreide 2003.)

Data on corruption are therefore dominated by indirect measurement, via perceptions of corruption, which are inevitably broad brush and not good at capturing short-term trends:

Assessment and measurement tools have proven useful in raising awareness and providing indicators for the fight against corruption in many cases. It is important, however, to recognise the challenges and limits of using these tools. Existing performance indicators lack dynamism. The lag to capture improvements translates into penalisation of governments that are making concrete progress. (OECD DAC 2005a: ¶17.)

6.87 There is a further difficulty in interpreting evidence about corruption: if more corruption comes to light it may mean simply that there is more corruption, but it may also indicate that more is being done about it. Secular trends (more democratic politics, expansion of a market economy) can have complex effects on corruption, and on the manifestations of corruption. Noting that electoral competition may act as a spur to corruption, Thomas and Barkan pose a dilemma:

Does political liberalisation then raise the level of corruption? ... caution must be exercised in drawing conclusions. In addition to imposing costs, a principal impact of political liberalisation is the birth or strengthening of monitoring systems such as the free press and an independent parliament, an increase in reporting of corruption, and the creation of an environment in which such subjects can be openly discussed. ... Indeed, the eruption of grand corruption scandals can be seen as evidence of the successful construction of monitoring and checking institutions that before were utterly lacking. It is only through the construction of systems of accountability that we can hope to check corruption at all. (Thomas and Barkan, *ibid.*)

6.88 A recent synthesis of donor experiences in combating corruption (OECD DAC 2005a) highlights the following lessons:

- There are no quick fixes, but a need for long-term comprehensive approaches that aim at systemic change.
- There are a variety of entry points for addressing corruption. Explicitly fighting corruption does not have to be the main point of entry: significant work, frequently not identified as anti-corruption, is being done to make improvements to financial systems, procurement, oversight agencies, etc. in the name of efficiency, transparency, capacity building and institutional strengthening.<sup>119</sup>
- A clear understanding of the political economy of corruption in general is necessary for taking effective action against corruption. Experience and specific knowledge of the countries and contexts where donors work is essential.
- Policy dialogue, if it is based on sound country knowledge, can play a useful role in combination with other instruments, especially in supporting partner country leadership that is committed to change.<sup>120</sup>

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<sup>119</sup> It is often difficult to differentiate anti-corruption measures from broader work to improve the public sector. ... This does not mean that all measures to improve public sector management are also measures against budgetary corruption. Nevertheless, most concrete improvements in public expenditure management components tend to have a positive impact by reducing the opportunities for corruption. (Isaksen 2005.)

<sup>120</sup> A study for GTZ notes how PRS processes, partly through links to civil society, have given prominence to corruption issues:

In many PRS countries, significant efforts have been made in recent years to secure transparency, accountability and efficient use of funds in public finance management. This is most probably due to the

**Box 6.5: Implications of Corruption for Poverty Reduction Strategy**

A synthesis of lessons learned from donor experience in combating corruption has noted:

Poverty-reduction strategies increasingly take corruption issues into account. At the same time, there appears to be limited effort to understand the issues affecting the poor in order to inform anti-poverty strategies. More specifically, if one were setting out to design an anti-corruption strategy targeting the poor, no doubt several elements would be the same as in any programme – but several might be different. The very poor have limited or no access to most of the justice system, except the police in a negative sense. Many surveys of the poor highlight their lack of personal security and the poor as well as predatory performance of the police. Many long-term reforms may assist the children of the poor but are unlikely to have much impact on the parents. Similarly, the effect of establishing or strengthening oversight or anti-corruption agencies may take a long time to have direct impact on the poor. On the other hand, reducing corruption and making public services more efficient, particularly local level services, offers the possibility of directly affecting the poor in a shorter timeframe. At the same time, this is not necessarily an either/or issue. (OECD DAC 2003a.)

6.89 Given the difficulties, and the ambivalence involved, in measuring corruption, it is not possible for the evaluation team, nor for anyone else, to say with certainty whether corruption, in some aggregate sense, has worsened or improved in the study countries during the period under review. Each of the study teams did carefully review corruption, and the way that it influenced, and was influenced by, PGBS. Chapter C5 of each country report includes a summary of findings on corruption, in addition to the reports' detailed assessments of public finance management. The country studies support the following broad observations:

- Corruption is perceived as a serious issue in all the countries (see Annex A, Figure A6); but as already noted, those data, being based on perceptions, are not robust enough to indicate reliable trends in performance.
- Corruption has been a salient issue in dialogue and in donor decisions about PGBS. A partial exception is Rwanda, where, during the evaluation period, corruption appeared not to be regarded as a particularly serious problem. In all other cases it was a prominent topic. Donor support to incoming governments in Malawi (2004) and Nicaragua (2001) was strongly influenced by a desire to support regimes seen as prepared to tackle corruption, and high profile corruption episodes in Burkina Faso, Mozambique, and Uganda gave prominence to the issue. Corruption is singled out as a source of tension and difficulty between partners in almost every case.
- Corruption, and anti-corruption measures, have correspondingly featured explicitly in the performance matrices and prior actions linked to PGBS. Most often, prior actions relate to legal measures, policy development and administrative actions (such as the implementation of leadership codes). Such measures, even when formally complied with, have not been conspicuously effective.
- In terms of a practical effect on the environment for corruption, work on public finance management has been more significant. Building on earlier work (notably the fiduciary analyses and assessments linked to the HIPC processes), PGBS-related dialogue and technical assistance has continued to support improvements in transparency, procurement management and auditing; their joint involvement in PGBS has tended to increase coordination among donors on such issues and added to the collective weight of donor pressure for improvements in government accountability systems. This includes specific measures such as expenditure tracking studies, which are helping to

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strong pressure exerted by donors, who in many PRS countries contribute between 30 and 60% of national budget revenues. (GTZ 2004c.)

The study was based on a review of 54 countries, including 34 which have prepared a full PRSP. All seven of the present report's case study countries (plus Tanzania) were rated in the group where the PRSP addresses corruption prevention moderately (see p18, Table 2, *ibid*).

address practical issues in ensuring that resources and services reach their intended beneficiaries.

- Donors, with PGBS donors very prominent amongst them, have also pursued anti-corruption strategies by other, complementary, means. These have included specific projects and TA to support accountability institutions (audit agencies, parliaments etc), and support to civil society organisations engaged in such issues.
- There was no clear evidence that budget support funds were, in practice, more affected by corruption than other forms of aid.

6.90 Budget support donors feel a special vulnerability to corruption, and to high profile corruption in particular, because of its potential to erode the trust on which partnership depends and to undermine public support for aid. This may partly account for their prominence in a wide range of anti-corruption activities. It may also have biased their interventions towards highly-visible anti-corruption measures that may not actually be the most effective in mitigating the adverse effects of corruption on the poor (see Box 6.5). It is clearly vital to continue to pursue broad anti-corruption strategies that focus on long-term improvements to country systems as well as short-term safeguards for donor funds. Such strategies should recognise the complementary roles that different aid instruments can play, and the potential for PGBS to contribute to the strengthening of public finance management as a means of limiting the scope for corruption.

6.91 *Recommendations on fiduciary risks and corruption:*

- (a) Fiduciary risks (including corruption) should be assessed from the perspectives of all stakeholders, not just donors.*
- (b) Common approaches to diagnosis and monitoring of PFM standards (including the PEFA indicators) should be strongly supported.*
- (c) Decisions about the adoption (and the design) of budget support should be based on a country-level assessment of the balance of potential risks and benefits.*
- (d) Donors should continue to pursue broad anti-corruption strategies, building on potential complementarities between different aid instruments. Such strategies should take into account the potential for budget support – in conjunction with other aid instruments – to help strengthen public finance management, including procurement, and thereby help limit corruption.*
- (e) More (shared) research is needed on corruption. Political analysis should encompass work on the drivers of corruption, and this should be complemented by practical work on the ways that corruption affects the poor (e.g. in service delivery).*
- (f) There should be more attention to public education in aid-giving countries about the whole spectrum of aid agencies' anti-corruption endeavours.*

### **Political Risks**

6.92 Many PRSPs include strategies ("pillars") related to good governance, which are reflected in PGBS policy matrices and performance assessments. But serious threats to the PGBS relationship tend to arise from more sensitive and explicitly political issues where, from the government perspective, national sovereignty or the political survival of the regime is in question. Several high profile political crises affected aid relationships in the study countries during the period under review (notably tensions in Rwanda in 2004 over the danger of a renewal of regional conflict; debates over military activities and defence expenditures in Uganda, and more recently in the same country, concerns over political developments in the transition to multi-party democracy which have led a number of bilateral donors to make highly-publicised cuts in their budget support). All donors, but more particularly bilateral agencies, premise government-to-government aid on basic principles about standards of governance and human



rights. There has been a clear trend to make these principles more visible in the MOUs that underlie collective budget support arrangements, as well as in the bilateral understandings between individual international partners and partner governments.

6.93 There is consensus, reflected in the DAC good practice guidelines that *political conditionality should not be specifically linked to budget support or any individual aid instrument, but rather should be handled in the context of the overarching policy dialogue between a partner country and its donors* (OECD DAC 2005d). Nevertheless, experience tends to demonstrate that budget support, and general budget support in particular, is especially vulnerable when there is a political deterioration in relations. This potentially undermines PGBS as a long-term instrument. Apart from immediate disruptive effects (and their effects on the poor), there is likely to be an effect on the partner government's perspective. An instrument that is seen as especially vulnerable in this way is less likely to be treated as a reliable source of financing for medium and long-term planning, and this in turn may undermine some of the distinctive benefits associated with PGBS.

6.94 We have advocated more donor attention to country-specific political analysis generally, as a basis for a better understanding of what may or may not be achieved through aid in general and PGBS in particular. This would be an important input to the joint donor assistance strategies that are becoming more common. Such analysis would not prevent crises in aid relationships, but more careful political risk assessment might motivate better design of budget support instruments (e.g. to provide options for graduated responses to political crises as well as for other aspects of performance that donors find unsatisfactory). At present an aid portfolio that comprises a series of specific projects or sector programmes at different stages in the project life cycle offers obvious options for graduated response when the donor wishes to send a highly visible political signal.<sup>121</sup> a withholding of new project grants or loans is more commonly resorted to than the extreme measure of suspending or terminating projects in mid-implementation, for example. We noted (§6.73 above) that re-balancing an aid portfolio from projects towards budget support potentially increases the amount of aid that is hostage to macroeconomic conditionality. A similar point applies to political risk. A tranche of budget support that is subject to a single, annual decisions, requiring positive approval by a minister, is especially vulnerable to demands for public signalling.<sup>122</sup> This apparent special vulnerability of PGBS to political risk is part of a more general issue about predictability and risk management in relation to PGBS, which we consider next.

### **Predictability and Managing Risks**

6.95 We have highlighted the distinctive characteristics of PGBS (§6.6), and stressed that these make PGBS an inherently long-term instrument (§6.31). Our comments on predictability and risk are based on this perspective.

6.96 We noted (Section 5, under EQ3) some of the problems that PGBS in the study countries experienced with predictability. Useful measures have been taken to make PGBS less vulnerable to short-term unpredictability. These include agreements to base disbursements on

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<sup>121</sup> The signal may be as much for the donor's domestic constituency as for the partner government.

<sup>122</sup> Conversely, there is less of a "hair-trigger" involved if funds are identified in the public mind with specific (popular) sectors, if there are longer intervals between decisions, if funds are disbursed via a third party, if there is a joint agreement with other partners, and so forth. There are precedents, too, for politicians deliberately insulating themselves from day-to-day disbursement decisions (delegation of monetary policy to central banks is a famous example; appointments of more or less independent boards to distribute various grants, etc), and agencies which make a point of assessing likely poverty impact before commencing funding should be equally assiduous in transparently assessing the poverty impact of suspending funding.

previous rather than current-year performance and to avoid in-year cuts in all but very exceptional circumstances. It also helps when partner governments can use reserves to buffer fluctuations in aid receipts. Moves towards a less rigid link to IMF macroeconomic conditionality are a further useful step. There have also been some moves towards extending the planning horizon for PGBS: for example the majority of PGBS donors in Mozambique now give indications of budget support intentions over a three-year horizon. Short-term predictability has improved across the study's sample countries because of such measures, though sources of short-term risk remain.

6.97 These improvements are valuable but they also reflect the inveterately short-term perspective that is built into the way aid agencies do business. It seems taken for granted that disbursing aid requires annual budgetary decisions (albeit, in some cases against the background of formal understandings with government that the agency's commitment to engagement with the country is a long-term one). Fine tuning of the existing instrument may further improve its efficiency, but will not change its essentially hand-to-mouth character. In line with commitments to the MDGs and the scaling up of aid, aid agencies should work with governments to develop genuinely long-term budget support instruments that could provide reliable support, where appropriate to the recurrent as well as capital budgets of partner countries. Design characteristics for such an instrument should build on the lessons of experience with HIPC and with PGBS.<sup>123</sup> Thus, disbursement would be through government systems, with due process conditions on transparency of budgets and expenditure records. In order to reinforce political support and to express the intentions of the funding, virtually earmarked budget support would be appropriate, most probably linked to sectors such as health and education where needs are high and political support is strong; although funds would not be more than virtually earmarked, they would be linked to monitorable government undertakings about levels of total funding to the sector, to an agreed medium and long-term expenditure plan for the sector (taking account of prospects for diminishing dependence on aid over the longer term), and to a sector-wide mechanism for dialogue and complementary technical support; to reinforce the reliability of international partner funding, it would be channelled through a trust fund managed by a multilateral agency.

6.98 There are also practical ways in which more familiar forms of budget support could be made more robust and more attuned to the political environment. Unearmarked budget support that is linked to a sector dialogue<sup>124</sup> is likely to be less vulnerable to political risk or lapses in international partner stamina. Although a proliferation of budget support instruments is undesirable, a modest number of sector-linked instruments could be coordinated with an integrating general support instrument that ensures consistency and adequate attention to central fiduciary and public expenditure management issues. Discussion of graduated responses tends to focus on ways of finessing short-term decisions with a single instrument; alternatives of compartmentalising budget support between sectors, or channelling it to the subnational levels of government should also be considered pragmatically, but still using mainstream government systems and avoiding real earmarking. Recipient governments can assist such graduated response by improving the quality and transparency of their budget presentations and expenditure reporting. Such alternative designs of budget support should be considered, inter alia, as part of the reviews of aid strategy and aid modalities at country level that we have recommended.

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<sup>123</sup> cf. Box 2.6 in the DAC good practice guidelines on budget support (OECD DAC 2005d), which puts the case for a HIPC-like instrument for irrevocable budget support, based on "threshold conditionality".

<sup>124</sup> This is the concept of sector budget support implied in the SPA's tentative definition (¶2.1(b) above) but also PGBS within our definition. See also footnote 122 above.

6.99 *Recommendations:*

- (a) There should be more systematic analysis of political risk in relation to budget support (and other forms of aid). Such analysis should be shared among donors (including, especially, those preparing joint assistance strategies). The design of budget support instruments should seek to increase the options for graduated responses when political signalling is deemed necessary.*
- (b) In seeking to reconcile known risks with the needs for long-term funding, international partners should seek to develop genuinely long-term funding instruments based on the design principles of budget support.*
- (c) Aid strategy reviews at country level should also consider pragmatic ways of making budget support both more robust and more easily manageable by developing mutually compatible budget support instruments focused on sector or sub-national levels of government.*



## 7. THE FUTURE OF PGBS: CONCLUSIONS AND RECOMMENDATIONS

### Introduction

7.1 This final Section focuses on overall conclusions and recommendations. After some caveats about the strengths and limitations of the evaluation, we provide an overall assessment of the empirical record of PGBS so far. We then consider the future role for PGBS, including the contexts in which PGBS is likely to be a useful approach. Finally, we provide a consolidated checklist of all the synthesis report's explicit recommendations, organised by theme and cross-referenced to their context in the report.

### The Evaluation in Perspective

7.2 The study's terms of reference were demanding (Section 1) and we applied an innovative and rigorous methodology (Section 2) in addressing them. Our conclusions are accompanied by the following caveats:

- (a) The evaluation was limited to an illustrative sample of countries. Only one of the countries had both a relatively long duration and a high (relative and absolute) volume of PGBS. In two of the countries, the implementation of PGBS during the period was minimal. The rigour of the methodology could not compensate for the paucity of experience to evaluate. Nevertheless it did ensure that a very systematic and consistent approach to assessment was applied in all seven cases, and we are confident that our conclusions – as far as they go – are well founded.
- (b) A further caution concerns the nature of the evaluation subject. PGBS is not a development programme or strategy in itself, but an approach that aims to support the development strategy of the partner country. We were evaluating a moving target, since both the partner strategies and the PGBS support instruments for them were evolving during the evaluation period. What was true of the particular configurations of strategy and instrument that we observed may not apply equally well in the future. Indeed, learning and adaptation – to which we hope this evaluation will contribute – *should* change some of the relationships that we observed.
- (c) Since PGBS is not a distinct project, programme or even a settled strategy, it is not possible to isolate it for evaluation. We had to take account of its interactions with other aid instruments and with the wider context and, as far as possible, identify its contribution to the aggregate effects we observed. Such an approach is extremely demanding on information, and requires the evaluators to weigh a lot of disparate evidence in making judgements. We have been as systematic as we could be in explaining both the evidence and the reasoning for our judgements.
- (d) We followed the logic of the methodology and the causal links as far as we could through all levels of the system. Where we found effects attributable to PGBS, we have been careful to record that PGBS *has had* such an effect. We do not automatically assume that PGBS necessarily always *does have* or *will have* that effect. In the same way, cases where we did not find an effect should not be generalised to imply that PGBS is necessarily incapable of producing such an effect, or irrelevant to the issue under consideration. We have pointed out the cases, and the points in the causality chain, where definitive conclusions were not possible because the time-scale has been too short for a final evaluation and/or adequate data are lacking.

7.3 The evaluation standards that we applied were very demanding. Many of the difficulties in tracing or attributing the effects of PGBS apply similarly to other modalities and to aid in general. Ultimately, PGBS should not be held to a higher (or lower) standard of "proof" than other approaches, modalities and instruments with which it may be compared.

7.4 A final caution relates to the expectations against which PGBS is judged. Some commentators have remarked that some of the potential effects depicted in the causality map – particularly those relating to changes in basic institutional relationships – are implausible in terms of the transformational and political character of the effects that are sought. It is possible that PGBS may be justified by more mundane achievements even in the absence of such effects.

### **Assessment of PGBS to date**

7.5 We found (see ¶6.6) that PGBS as a modality is distinctive in:

- Its orientation to the support of national poverty reduction strategies.
- Its orientation to the strengthening of national government capacity, especially in the core areas of public finance management.
- Its focus on results.
- Its explicit intention to improve the quality and effectiveness of aid.
- Its aspiration to function as a partnership.

7.6 We also noted that PGBS designs vary across countries and have evolved over time (¶5.13–¶5.15). In every case PGBS both embodies a particular set of relationships among the parties involved, and supports a particular country-specific, development strategy. The variety of designs and contexts requires care in generalising from observed performance. However, the following important findings were clear:

- (a) PGBS has been a relevant response to certain acknowledged problems in aid effectiveness (¶5.21).
- (b) PGBS can be an efficient, effective and sustainable way of supporting national poverty reduction strategies. It played a clearly positive role in five of the seven case study countries (Burkina Faso, Mozambique, Rwanda, Uganda and Vietnam). Subsequent findings about the effectiveness of PGBS are based mainly on the experiences of these five countries. In one country (Nicaragua) PGBS was at such an early stage that firm conclusions about its effects were not yet possible. In another (Malawi), PGBS was not successfully established during the evaluation period. (See Section 4 above for a country-by-country overview of the assessment. See Box 7.1 for a summary of key findings from the parallel GBS evaluation in Tanzania.)
- (c) Provision of discretionary funds through national budget systems has produced the systemic effects on capacity, and particularly PFM-related capacity, that are posited in the evaluation framework, and these effects are government-wide in nature (¶5.52). PGBS was not a panacea, but it strengthened government ownership and accountability (¶5.20, ¶5.49), and in the short–medium term, there were useful effects on allocative and operational efficiency of public expenditures, including aid (¶5.40); these were linked with medium–longer term systemic effects on improving the links between policy and results (¶5.63–¶5.64).
- (d) There were enough positive spillover effects to suggest that PGBS can be more than the sum of its parts. In particular PGBS tends to enhance the country-level quality of aid as a whole, through its direct and indirect effects on coherence,

harmonisation and alignment (¶5.28), on partner government transaction costs (¶5.41–¶5.42), and on the overall efficiency of resource use (¶5.43). This makes PGBS a particularly valuable addition to the array of aid instruments in use, and highlights the need to employ PGBS as part of a strategy that takes account of the interplay between different aid modalities (¶6.62 onwards).

- (e) As regards poverty reduction (¶5.84 onwards), it was too soon for the ultimate effects of PGBS inputs during the evaluation period to be manifest. Its initial effects have been mainly through supporting the expansion of basic public services (¶5.83). PGBS is a vehicle that assists in implementing a poverty reduction strategy. Its ultimate effectiveness in reducing poverty is bound in with the quality of the PRS that it supports. Given the bias of early PRSPs towards the expansion of public services, most of the effects of PGBS inputs so far are likely to have been on access to services, rather than income poverty and empowerment of the poor.
- (f) It is important not to overload the PGBS instrument, but we found in all cases a capacity to learn from experience (¶5.99) which suggests that PGBS could become more effective, and have a broader scope, over time.
- (g) The evaluation also considered possible unintended effects of PGBS. It did not find evidence of significant crowding-out of private investment nor of the undermining of domestic revenue effort (¶5.74–¶5.76). Malawi's experience showed that PGBS could have a destabilising effect when basic conditions for disbursement are not met; in other countries PGBS design has been improved to limit short-term unpredictability (¶5.68–¶5.72). Corruption can undermine all forms of aid; systemic strengthening of public finance management, which PGBS supports, is an important part of a broad anti-corruption strategy (¶6.82–¶6.99). All of these potential adverse effects, however, also represent risks that need to be taken into account in the design of PGBS (and other aid).
- (h) More generally, we found that PGBS as presently designed, is vulnerable to a number of risks, including political risks, that threaten its ability to operate as a long-term support modality (¶6.72–¶6.98). Its sustainability depends on making it more resilient.
- (i) PGBS is part of a family of programme-based approaches (¶3.8, ¶6.62), and many of our findings are also relevant to PBAs in general.

## **Future Roles for PGBS**

### **Introduction**

7.7 In this sub-section, we draw on the findings from our study countries, and from our wider consideration of thematic issues, to suggest some criteria for deciding whether and where PGBS may be an appropriate aid modality. The required decision is a subtle one. As we have demonstrated, PGBS is not a uniform instrument that is either appropriate or not. For any given aid-recipient country, there is of course a question whether a PGBS instrument is appropriate at all, but there are also questions about the scope, scale and design of any PGBS instrument. And, crucially, its role vis-à-vis other aid modalities needs to be considered.

### Box 7.1: Conclusions from the GBS Evaluation in Tanzania

#### Learning from Tanzania

In some important respects, generalising from Tanzania's experience 1995–2004 might generate an excessively optimistic perspective. In retrospect, it is clear that the country was favoured during this period by several factors that seem likely to improve the chances of GBS working in the way that its advocates expect. A stable political regime, high-level political support for structural reforms and a strengthened and capable finance ministry are among the conditions that were present in Tanzania, but are absent in a good many other countries in the region.

On the other hand, in very many ways the evaluation has highlighted issues that Tanzania shares with other countries throughout the region. The most obvious is the high level of both financial and institutional aid dependency, and the shortage of sustained political support to the more difficult reforms. The limited capacity of even a substantially empowered Ministry of Finance to enforce changes in the incentive structures of line ministries and local governments is a typical problem. Above all, the continued dominance of projects and other modes of aid delivery that by-pass the national budget process offsets any advantages that Tanzania might otherwise possess as a test-case of the benefits of budget support.

With this in mind, Tanzania suggests several wider lessons regarding GBS as a modality.

- Domestic political considerations have a dominant influence. The Tanzanian experience is a useful reminder that budget funding and the related dialogue, conditions and technical assistance, are never likely to be more than a modest influence on processes of public-sector reform and institutional development.
- Increasing the volume of discretionary funding that can be used for development purposes is the main contribution of GBS. Given the importance of this aspect, it is vital to give close attention to the sustainability, predictability and timeliness of the financial flows.
- GBS can contribute to reduced transactions costs. In Tanzania, the lack of evidence of transactions-cost reductions arises substantially from the fact that the GBS arrangements have been additional to continuing large numbers of donor projects in the public sector and the parallel rise in the importance of common-basket funding.
- The reinforcement of democratic accountability is not automatic. At most GBS can facilitate a process of internal, politically-driven change in which domestic actors assume new roles. It is domestic political change that is the prime mover, and without it the immediate effect may be limited to a more constructive donor-government dialogue.
- The link to poverty reduction is indirect and necessarily long term. The intermediate changes needed are well established in theory but hard to realise in practice. GBS can facilitate such changes, most obviously by funding an expansion in the volume of targeted services. But key problems will only be solved by domestic shifts of a necessarily slow and incremental kind.

The GBS evaluation used a more rigorous set of benchmarks of success than any hitherto applied to individual aid operations in Tanzania. It was not content to ask whether immediate effects and outputs were produced efficiently. It also asked how far GBS has been able to enhance the capacity of government to influence the determinants of poverty and whether there is evidence of poverty levels falling as a consequence. This sets quite a demanding standard.

GBS in Tanzania has not had all the effects indicated by the evaluation framework. Yet many of these, especially at the outcome and impact levels, depend strongly on underlying political and institutional factors which no aid modality can expect to influence over the medium term. The question to ask is whether the important positive changes which have been witnessed could have been enabled so effectively by alternative aid modalities. The Tanzania evaluation suggests not. General Budget Support was a crucial facilitating factor in these changes.

Source: Lawson et al 2005a.



### **In What Country Contexts is PGBS Appropriate?**

7.8 The set of countries we evaluated was necessarily limited, in numbers and in range. Nevertheless, the five countries with a positive PGBS track record demonstrate that PGBS can be adapted to a wide variety of economic, political and institutional settings. All seven countries provide insights into the process of designing and implementing PGBS instruments. The faltering experience of Malawi provides particular insights about some of the prerequisites for the establishment of a viable partnership. But we did not explore the performance of GBS in a federal state, or the provision of budget support to a sub-federal entity.<sup>125</sup> Nor did we directly consider examples of, or the potential for, budget support in particularly weak states. Rwanda (plus, to an extent, the earlier history of Uganda and Mozambique) provided some insights on the scope for PGBS in states recently emerged from conflict.

7.9 Against this background, we do not consider that a set of rigid prescriptions or PFM benchmarks ("undertake PGBS in such-and-such countries, do not attempt PGBS in such-and-such countries") would be justified or helpful. There are many variables that have to be balanced – and some of them may count on both sides of the scale. For example, certain weaknesses in PFM may be simultaneously a problem that PGBS might help to address and a risk to PGBS itself. However, there are certain factors about the (potential) partner country, and about the quality of the aid relationship, that will always be relevant.

7.10 Partnership requires willing partners. The state (and potential) of aid relationships is key. The partner government must want to engage in PGBS, and it must have a fundamental ability to engage with international partners, and to follow through on its own strategy. There must be basic trust between the potential partners (among international partners as well as with government), and a significant consensus on development strategy (including a broad consensus on patterns and priorities for public expenditure). The competence and status of the planning/finance ministry is crucial. Not least, donors who embark on PGBS should be prepared for a lengthy engagement.

7.11 PGBS is more likely to be an attractive option to countries that are significantly aid dependent. Here the problems in reconciling large aid flows with healthy development of state institutions are more likely to be serious, and the role of PGBS in increasing the role of budgetary discretion and increasing alignment between government and donors more relevant. But significant volumes of PGBS will be problematic unless macroeconomic stability and elementary fiscal discipline have been established. The more capable are the institutions of government (and especially core planning and budgetary systems), the easier implementation should be. But there is another way of looking at the capacity issue, which is to tailor the scale and ambition of PGBS to an assessment of the initial situation, and to set the sights higher as (and if) capacity gradually improves. We elaborate on the incremental approach below.

### **An Incremental Approach to PGBS**

7.12 There are many reasons to take an incremental approach in deploying PGBS. It needs to be adapted to country circumstances, and building up effective systems and procedures is an iterative process. Applying rigid "threshold" criteria would be difficult in concept and unhelpful in practice. Where there are doubts about the quality of PFM systems, both the learning and the incentive effects of initially modest disbursements may be valuable. Aid agencies as well as governments need to learn and to adapt their capacities. Over time, and depending on

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<sup>125</sup> There are examples on a large scale (e.g. to Indian states; Lawson et al 2002 includes a case study of support to Andhra Pradesh), and on a small scale (Irish aid to Tigray region in Ethiopia has been at least one example; see Mokoro Ltd 2004).

performance, PGBS may be scaled up in several dimensions: in volume of funds (including a contribution to the scaling up of total aid flows), as a share of aid resources, and in terms of the policy and sectoral scope of the PGBS dialogue.

7.13 The findings from our country studies as a whole do not support the idea that there is a standard evolutionary sequence, in which project aid first gives way to sector programmes (or sector basket funds) before the eventual introduction of unearmarked budget funding. They do support the value of moving to the use of government systems as early and as completely as is practical. The relationship between PGBS and sector programmes is more subtle. First, there is not such a sharp demarcation between sector budget support and general budget support as has sometimes been assumed. In practice there is a spectrum of instruments, and many current examples of "sector budget support" are operating in (or aspiring to) a partnership style, and delivering resources to the government budget that are only notionally earmarked. While it is important that such instruments should not proliferate in a random way, there is scope for a limited number of sector-focused and more general PGBS instruments to be mutually reinforcing. PGBS does not obviate the need for sector-wide approaches: SWAPs should be supported by a mix of funding instruments, coordinating budget support with aid projects where these are the best option. At the same time, sector-focused budget support instruments should be seen as possible complements to, not a substitute for, general budget support. The more general PGBS instrument (with its associated dialogue and support for capacity development) plays two roles that sector budget support could not provide in isolation: (a) as the focus of support for strengthening overall public finance management, including the budget system (§§6.21–§§6.22); (b) as a force for coherence and alignment across sectors (§§5.28).

### **Guiding Principles and Good Practices for PGBS**

7.14 Existing OECD DAC good practice guidelines for budget support are relevant to PGBS, and we reproduce their main points in Box 7.2. The full DAC document (OECD DAC 2005d) goes into considerable detail on many of the points. In most cases, its analysis and recommendations are fully consistent with ours. In a few, comparison of the DAC document with this report and with our detailed recommendations will show some differences of emphasis. In the paragraphs below, however, we focus on some complementary issues.

7.15 First, the DAC guidelines imply a stronger discontinuity between general and sector budget support than we have found. Recognition of a spectrum of budget support instruments implies (a) that many of the good practices defined for PGBS will apply equally to instruments that are habitually referred to as sector budget support, but also (b) that alignment and coordination among budget support instruments with different (general/sector) orientations is an important practical issue.

7.16 Second, and more generally, we have stressed that PGBS needs to be conceived (and developed and managed) as part of strategy which takes explicit account of the interplay between different aid modalities and instruments, seeking to exploit complementarities and tackle dissonance between them (see §§6.70–§§6.72).

**Box 7.2: DAC (2005) Guiding Principles and Good Practices for Budget Support**

**GUIDING PRINCIPLES**

1. Budget support should reinforce partner countries' ownership.
2. Budget support should help to enhance the performance and accountability of partner countries' PFM systems.
3. Transaction costs incurred by budget support should be minimised.
4. Budget support should be delivered in a way that enhances the predictability of resources and reduces their volatility.

**GOOD PRACTICES**

**Supporting ownership**

- *Refrain from targeting support*
- *Reflect partner country priorities*
- *Focus on results*

**Enhancing PFM performance and accountability**

- *Follow good practices in PFM diagnostic and assessment work*
- *Directly support the capacity development of partner PFM systems*
- *Avoid undermining country systems*

**Reducing transaction costs**

- *Streamline conditionality*
- *Rationalise fiduciary assessments*
- *Align processes*
- *Tap the potential of joint donor frameworks*
- *Time disbursements to facilitate the smooth execution of budgetary payments*

**Enhancing predictability and reducing volatility**

- *Programme budget support over several years*
- *Align support with partner country budget cycles*
- *Design conditionality to enhance the predictability of disbursements*
- *Time disbursements in a predictable manner*
- *Avoid stop-and-go cycles and allow for graduated responses*
- *Build public support*

Source: OECD DAC 2005d. The source document elaborates on each of the principles and good practices.

7.17 Finally, we strongly endorse the importance of building public support for PGBS. No aid modality should be supported uncritically; we have drawn attention to the limitations of PGBS as well as recommending ways in which it may be improved. Nevertheless, among aid practitioners as well as among the interested public, there is need for a deeper understanding of how well-designed budget support operates. It is not, as is sometimes carelessly implied, a matter of giving money to governments, no questions asked, to use just as they like. It aims to make governments more accountable, not less, for the effective use of all resources (aid and domestic revenue). We hope this evaluation will contribute to a deeper understanding of budget support and to the more effective use of aid.

## Summary of Recommendations

7.18 Our principal recommendations were presented, and explained in relation to our findings, in Section 6. Some additional recommendations on the use and design of PGBS have been made in the present section. The recommendations are organised by broad themes below, with cross-references to where they occur in the body of the report. Several recommendations are relevant to more than one theme.

### On the Scope and Focus of PGBS

*Recommendation 1 The adoption and design of PGBS (Section 7)*

- (a) Follow an incremental approach in introducing PGBS, which may be relevant in a wide variety of contexts.*
- (b) Follow the general principles and good practices for budget support of the OECD DAC guidelines on effective aid, but make allowances for the interaction and overlap between general and sector-focused approaches to budget support.*

*Recommendation 2 Scope and focus of PGBS (¶6.30)*

- (a) Take care not to overload PGBS, either with unrealistic objectives or with too many reform tasks. This is especially important during the early, learning, phases of PGBS development.*
- (b) The appropriate scope and focus of the PGBS instrument can only be decided in country context. In all cases, however, its central role in strengthening public expenditure management should be kept in focus.*

### On Capacity Development

*Recommendation 3 Capacity development (¶6.28)*

*Key directions for capacity development related to PGBS include:*

- (a) Support capacity development by using government systems; in particular accelerate moves to bring aid funds on-plan and on-budget.*
- (b) Recognise the centrality of PFM reform (medium-term policy-based resource allocation as well as fiduciary management systems) for the development of national capacity to manage for results.*
- (c) Strengthen the policy analysis, budgeting and expenditure management capacities of line ministries as well as finance ministries, so as to enable more effective planning and budgeting processes within government.*
- (d) Pay more attention to capacity issues (including PFM capacity) as they affect local governments.*
- (e) Seek more alignment around government-led capacity development strategies for PFM, and for public sector management generally.*

### On the Policies and Strategies It Supports

*Recommendation 4 Income poverty and growth (¶6.14)*

*Governments and international partners should pay more explicit attention to the income poverty and growth implications of public policy and expenditures, and to the ways in which PGBS may complement other modalities in this area.*

*Recommendation 5 Quality and financing of public services (¶6.11)*

- (a) *Government and international partners should pay more attention to the quality of basic public services and, in particular to their poverty incidence.*
  - *A first requirement is to learn more – through monitoring of service quality, incidence and uptake (including geographical and social incidence, and the preferences of poor people themselves).*
  - *PGBS and related sector dialogues offer opportunities for governments and international partners to address such issues.*
  - *Programmes to strengthen analysis and monitoring should be designed in a way that increases national and government capacity in these fields.*
- (b) *International partners and governments need to move on from simplistic “pro-poor expenditure” based expenditure allocation approaches to deeper analysis of sector and sub-sector strategies and their expenditure implications.*
  - *Again, programmes aimed at strengthening analysis and monitoring should be designed in a way that increases national and government capacity in these fields.*
- (c) *International partners, in particular, need to consider long-term financing strategies for MDGs, in terms of their sustainability, their aid-finance requirements, and the appropriate balance of expenditures across sub-sectors.*

*Recommendation 6 PGBS and cross-cutting issues (¶6.16)*

- (a) *The potential for supporting policy CCIs through PGBS should be kept under review. Pragmatic considerations mean that different approaches will be taken in different countries and at different times – taking account of the need not to overload the PGBS instrument, the scope for addressing CCIs through other instruments, and the potential to add value by exploiting complementarities between instruments.*
- (b) *More generally, global initiatives and other vertical programmes should always be integrated with national and sector planning and budgeting*

**On Performance Assessment and Conditions**

*Recommendation 7 Performance assessment frameworks (¶6.54)*

- (a) *Partners and donors should implement the Paris Declaration commitments with respect to alignment and managing for results.*
- (b) *Take care that disbursement-linked conditions are kept to a minimum and are genuinely agreed with government.*
- (c) *Ensure that performance assessment systems address all links in the results chain, so as to serve the management and monitoring of the implementation of strategies, as well as the monitoring of results.*
- (d) *Decisions to increase or reduce levels of PGBS support should mainly be based on medium-term assessments of overall performance.*

*Recommendation 8 Signalling the uses of budget support (¶6.46)*

- (a) *Virtual earmarking and similar signalling devices should be assessed according to their empirical utility, not simply dismissed as theoretically sub-optimal.*
- (b) *If adopted, they should be designed so as to minimise transaction costs.*
- (c) *Aid agencies should seek common (and mutually consistent) approaches to the sector-attribution of GBS for reporting purposes.*

## **On Managing Risks**

### *Recommendation 9 Macroeconomic conditions (¶¶6.75)*

- (a) Retain the IMF role in monitoring, reporting and advising on macroeconomic performance. ..*
- (b) .. but avoid a mechanistic yoking of all PGBS funds to the IMF's own conditions. Design a graduated response procedure that takes account of the budgetary purposes of PGBS funding as well as the macroeconomic implications of interruptions.*

### *Recommendation 10 Revenue mobilisation (¶¶6.77)*

*(Continue to) accompany PGBS with technical support to strengthen revenue agencies and monitor revenue targets.*

### *Recommendation 11 Fiduciary risks and corruption (¶¶6.91)*

- (a) Fiduciary risks (including corruption) should be assessed from the perspectives of all stakeholders, not just donors.*
- (b) Common approaches to diagnosis and monitoring of PFM standards (including the PEFA indicators) should be strongly supported.*
- (c) Decisions about the adoption (and the design) of budget support should be based on a country-level assessment of the balance of potential risks and benefits.*
- (d) Donors should continue to pursue broad anti-corruption strategies, building on potential complementarities between different aid instruments. Such strategies should take into account the potential for budget support – in conjunction with other aid instruments – to help strengthen public finance management, including procurement, and thereby help limit corruption.*
- (e) More (shared) research is needed on corruption. Political analysis should encompass work on the drivers of corruption, and this should be complemented by practical work on the ways that corruption affects the poor (e.g. in service delivery).*
- (f) There should be more attention to public education in aid-giving countries about the whole spectrum of aid agencies' anti-corruption endeavours.*

### *Recommendation 12 Political risk and graduated responses (¶¶6.99)*

- (a) There should be more systematic analysis of political risk in relation to budget support (and other forms of aid). Such analysis should be shared among donors (including, especially, those preparing joint assistance strategies). The design of budget support instruments should seek to increase the options for graduated responses when political signalling is deemed necessary.*
- (b) In seeking to reconcile known risks with the needs for long-term funding, international partners should seek to develop genuinely long-term funding instruments based on the design principles of budget support.*
- (c) Aid strategy reviews at country level should also consider pragmatic ways of making budget support both more robust and more easily manageable by developing mutually compatible budget support instruments focused on sector or sub-national levels of government.*

### **On Managing Aid**

#### *Recommendation 13 Aid strategies (¶6.71)*

- (a) International partners and governments, generally and at country (and sector) level, should develop strategies to optimise complementarities between aid instruments.*
- (b) These should consider, inter alia, the transaction cost implications of existing and proposed configurations, and the available and desirable levels of harmonisation among donors.*
- (c) Aid strategies should include explicit proposals for the use of budget support itself.*

*See also Recommendation 12 (b) and (c) on design of budget support instruments.*

#### *Recommendation 14 Management and monitoring of partnerships (¶6.59)*

- (a) Donors who engage in PGBS should do so on the basis that it is a long-term endeavour in which both sides need to build up and sustain trust and track records of reliability.*
- (b) Donors engaged in PGBS should increase the in-country discretion afforded to their local offices, strengthen their understanding of local political and administrative detail, and seek greater continuity in staffing.*
- (c) Support to strengthening government systems requires attention to both the supply and the demand aspects of capacity; while strengthening the capacity of finance ministries and other central agencies is essential, there needs to be a balance between central and sectoral capacity development.*
- (d) The concepts of mutual accountability and joint accountability are important. Independent monitoring of aid performance (as pioneered in Tanzania) could play an important role, and should incorporate monitoring of the Paris Declaration benchmarks*





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Report	Bibliography Citation
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Burkina Faso CR	Lanser et al (2006)
Malawi CR	Claussen et al (2006)
Mozambique CR	Batley et al (2006)
Nicaragua CR	Gosparini et al (2006)
Rwanda CR	Purcell et al (2006)
Uganda CR	Lister et al (2006)
Vietnam CR	Bartholomew et al (2006)

We also cite other key documents as follows:

TOR (Terms of Reference for this study)	reproduced in IDD & Associates (2005) [Annex A]
EF (Evaluation Framework)	Lawson, A. and Booth, D. (2004)

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**JOINT EVALUATION OF GENERAL BUDGET SUPPORT 1994–2004**  
*Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam*

# **Synthesis Report Annexes**

**May 2006**



**Evaluation of General Budget Support  
SYNTHESIS REPORT ANNEXES**

**Contents**

<b>Annex A: Governance Indicators for the Study Countries</b>	<b>1</b>
<b>Annex B: Summary of Partnership General Budget Support Financial Flows</b>	<b>11</b>
<b>Annex C: Synthesis of Country Report Ratings</b>	<b>25</b>
<b>Annex D: Public Finance Management Assessments</b>	<b>43</b>
<b>Annex E: Synthesis of Causality Findings</b>	<b>51</b>
<b>Annex F: Study Process</b>	<b>73</b>



## Annex A: Governance Indicators for the Study Countries

1. The World Bank has published composite governance indicators for 1996, 1998, 2000, 2002 and 2004, covering six areas: *Government Effectiveness, Regulatory Quality, Voice and Accountability, Political Stability and Absence of Violence, Rule of Law, and Control of Corruption*. The governance indicators are updated every two years. All relevant information (including data, methodological papers, interactive charts, and world maps) for the last round of updates (2004) is now posted on the web.<sup>1</sup> The next round of governance indicators will be posted in early 2007. The indicators are revised periodically so scores presented now are not necessarily ones that were available at the dates they refer to.
2. Data for the seven GBS evaluation study countries are presented in graphical form in this annex, in the hope of making trends and comparisons easier to see. The relative rankings for the seven study countries are extracted from the World Bank dataset of governance indicators covering 209 countries. A note on source data and tables of the current set of governance scores are given at the end of this annex. Tanzania is included as a comparator for the case study set. Commentary on the graphs refers to this group of eight countries. In the graphs the UK and Botswana have also been added as comparators (but are not included in the commentary). To make the graphs easier to read, the key to each graph lists countries in order of their most recent [2004] scores.
3. *Political Stability and Absence of Violence* is the dimension on which, in relative terms, the sample countries score best, but is also the one with the greatest range, and the greatest volatility, among the sample. By contrast, the gaps between UK and Botswana, and between the latter and the “pack” of eight GBS countries are largest in relation to *Rule of Law, Control of Corruption* and *Government Effectiveness*.
4. Table A1 overleaf provides an overview of the results recorded for each of the 6 governance indicators for the sample group of countries. The countries are listed in order, starting from the highest rating achieved to the lowest rating for the years 2004 and 1996.

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<sup>1</sup> <http://www.worldbank.org/wbi/governance/govdata/>

**Table A1: WB Governance Indicators – Order of Ratings 1996 and 2004**

**WB Governance Indicators - Order of Ratings 2004**

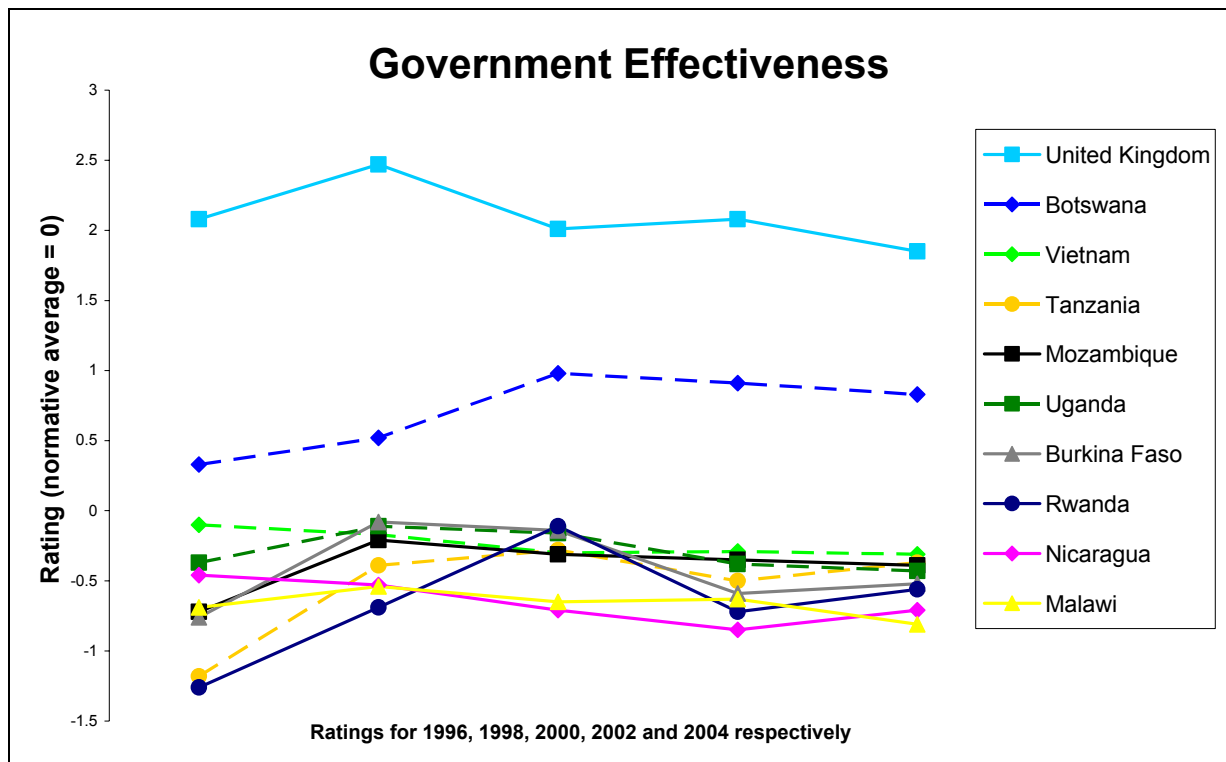
Government Effectiveness	Regulatory Quality	Voice and Accountability	Political Stability and Absence of Violence	Rule of Law	Control of Corruption
UK	UK	UK	UK	UK	UK
Botswana	Botswana	Botswana	Botswana	Botswana	Botswana
Vietnam	Uganda	Nicaragua	Vietnam	Malawi	Nicaragua
Tanzania	Nicaragua	Mozambique	Mozambique	Tanzania	Burkina Faso
Mozambique	Burkina Faso	Tanzania	Nicaragua	Vietnam	Rwanda
Uganda	Mozambique	Burkina Faso	Burkina Faso	Mozambique	Tanzania
Burkina Faso	Rwanda	Malawi	Malawi	Burkina Faso	Uganda
Rwanda	Tanzania	Uganda	Tanzania	Nicaragua	Vietnam
Nicaragua	Malawi	Rwanda	Rwanda	Uganda	Mozambique
Malawi	Vietnam	Vietnam	Uganda	Rwanda	Malawi

**WB Governance Indicators - Order of Ratings 1996**

Government Effectiveness	Regulatory Quality	Voice and Accountability	Political Stability and Absence of Violence	Rule of Law	Control of Corruption
UK	UK	UK	UK	UK	UK
Botswana	Botswana	Botswana	Botswana	Botswana	Botswana
Vietnam	Uganda	Mozambique	Vietnam	Rwanda	Nicaragua
Uganda	Nicaragua	Nicaragua	Malawi	Malawi	Burkina Faso
Nicaragua	Burkina Faso	Malawi	Tanzania	Vietnam	Uganda
Malawi	Malawi	Burkina Faso	Burkina Faso	Nicaragua	Mozambique
Mozambique	Tanzania	Uganda	Mozambique	Tanzania	Vietnam
Burkina Faso	Vietnam	Tanzania	Nicaragua	Burkina Faso	Malawi
Tanzania	Mozambique	Vietnam	Uganda	Uganda	Tanzania
Rwanda	Rwanda	Rwanda	Rwanda	Mozambique	Rwanda



Figure A1: Governance Indicators for Government Effectiveness



**Government Effectiveness** combines responses on the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies.

**Overall:** For most of the eight countries, government effectiveness improves between 1996 and 1998, and then decreases or is, at best, constant between 1998 and 2004.

**Vietnam** has the highest score among the eight countries in 1996, 2002 and 2004.

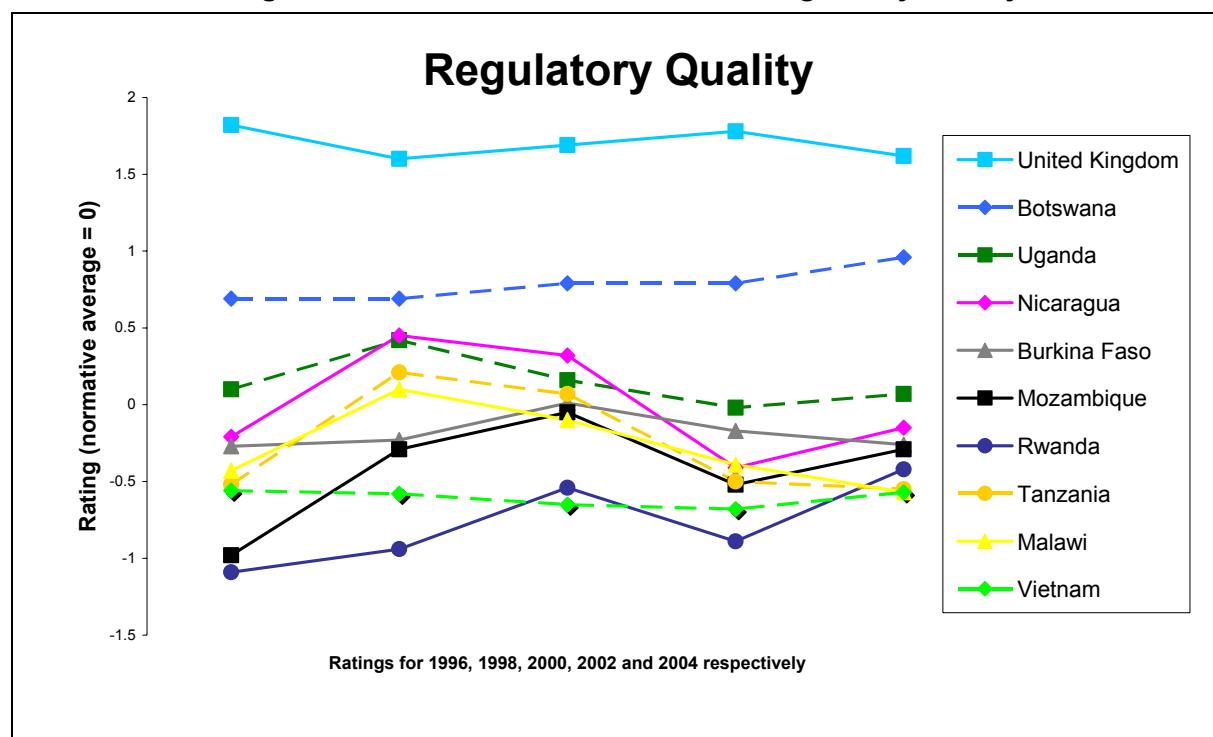
**Mozambique, Uganda, Tanzania and Burkina Faso** all display improved government effectiveness between 1996 and 1998, with the upward trend most pronounced in the case of Tanzania, followed by Burkina Faso. All show a flat or imperceptibly declining trend between 1998 and 2000, except for the Tanzania score which slightly improves. All show a downward trend between 2000 and 2002, sharpest for Burkina Faso. Between 2002 and 2004, scores for Burkina Faso and Tanzania show very small improvements, while Mozambique and Uganda display imperceptibly downward trends.

**Malawi** displays an almost flat trend, at quite low scores throughout the period, with a downward trend from 2002 to 2004. It has the third lowest score in 2002 and the lowest score in 2004.

**Rwanda**, starting with the lowest rating in 1996, shows a sharp upward trend up to 2000, then a sharp decrease between 2000 and 2002, bringing it back to the 1998 level and below all other countries except Nicaragua. It then shows a slight increase from 2002 to 2004. It has the third lowest score in 2004.

**Nicaragua**, starting from just below Vietnam and Uganda in 1996, shows a consistently negative trend between 1996 and 2002 and displays the lowest score in 2002. It records slightly improved government effectiveness 2002 to 2004 but has the second lowest score in 2004.

Figure A2: Governance Indicators for Regulatory Quality



**Regulatory Quality** focuses on measures of the incidence of market-unfriendly policies such as price controls or inadequate banking supervision, as well as perceptions of the burdens imposed by excessive regulation in areas such as foreign trade and business development.

**Overall:** After a widespread improvement 1996–1998, performance deteriorates for all eight countries 2000–2002. Between 2002 and 2004 performance is either upwards or flat, with the exception of Burkina Faso’s and Malawi’s downward trend.

**Uganda** rates best in 1996 and its score continues to improve up to 1998 but thereafter decreases until 2002 and then shows a slight upward trend between 2002 and 2004. However, as other countries do not do much better it has still the best score in 2002 and 2004, roughly back at the 1996 level.

**Nicaragua**, second best in 1996 and improving sharply by 1998, then displays a deteriorating path until 2002. From 2002 to 2004 there is an improvement, bringing its rating to just above the 1996 level.

**Tanzania** has a trajectory similar to Nicaragua’s from 1996 to 2002. Its score in 2002 is the same as in 1996. However, unlike Nicaragua, its score remains flat between 2002 and 2004 – almost at the bottom of the group.

**Malawi** is very close to Tanzania but declines less sharply between 1998 and 2002 and hence ends up above Tanzania in 2002. However, from 2002 to 2004 it experiences another decline bringing it again just below Tanzania in 2004, with the joint lowest score of the group together with Vietnam.

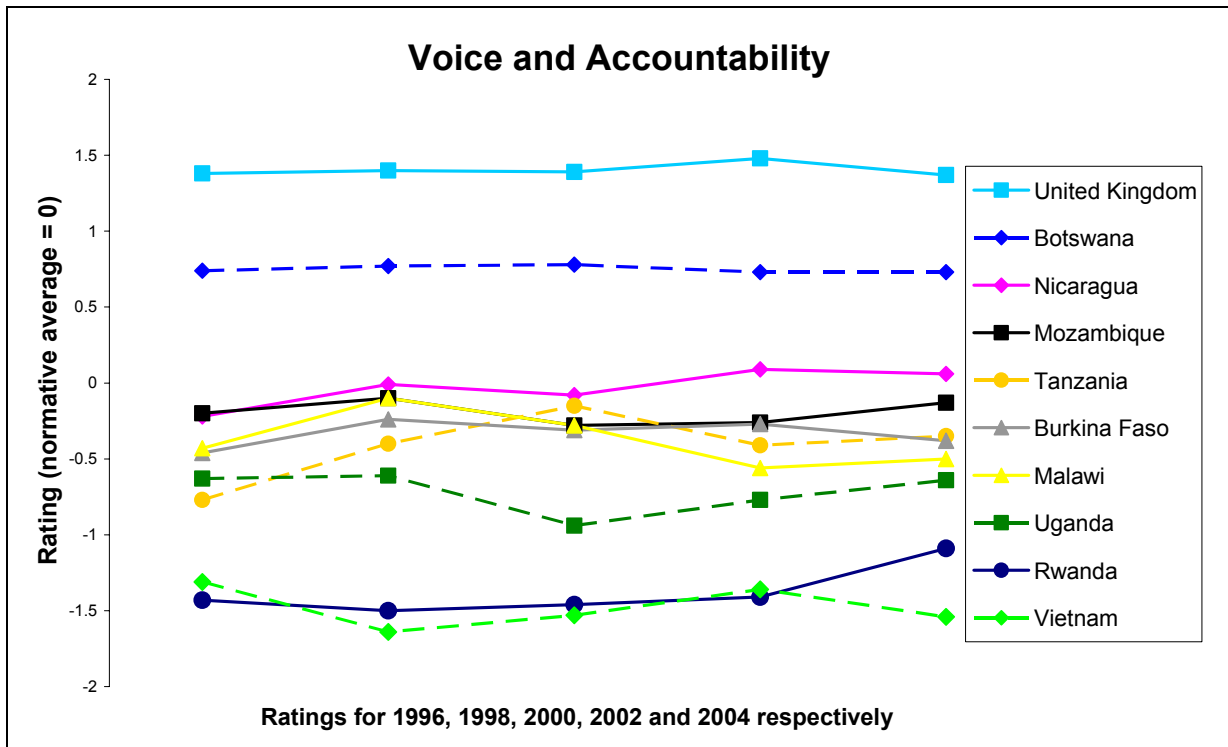
**Burkina Faso** displays a rather flat trend over the six-year period, starting 1996 and finishing 2004 at just below the same level as Nicaragua and above Tanzania and Malawi.

**Vietnam** displays an almost flat trend, with quite low scores. In 2002 it is the second lowest after Rwanda, and in 2004 it is joint last with Malawi.

**Mozambique**, the second lowest in 1996, displays a rather sharp improvement between 1996 and 2000, followed by a downturn in 2002, and then again an upward trend in 2004 bringing it back to its 1998 level.

**Rwanda**, from the lowest score in 1996 and 1998, improves by 2000, and then enters a sharp downturn until 2002. The upward trend between 2002 and 2004 then brings it up to above the 2000 level.

Figure A3: Governance Indicators for Voice and Accountability



**Voice and Accountability** includes a number of indicators measuring various aspects of the political process, civil liberties and political rights, measuring the extent to which citizens of a country are able to participate in the selection of governments.

**Overall:** Most countries show an improved or comparable rating in 2004 compared with 1998 (with the exception of Vietnam which has declined slightly).

**Nicaragua** scores just below Mozambique in 1996 and from 1998 has the highest scores of the eight countries throughout the period. It records an overall upward trend between 1996 and 2004.

**Mozambique** maintains fairly high scores over time though its relative position declines to second highest in 2004.

**Malawi** improves 1996 to 1998. A downward turn from 1998 brings it to a lower score in 2004 than its 1996 level.

**Burkina Faso**, starting just below Malawi in 1996, shows an overall upward trend between 1996 and 2002, but declines slightly from 2002 to 2004.

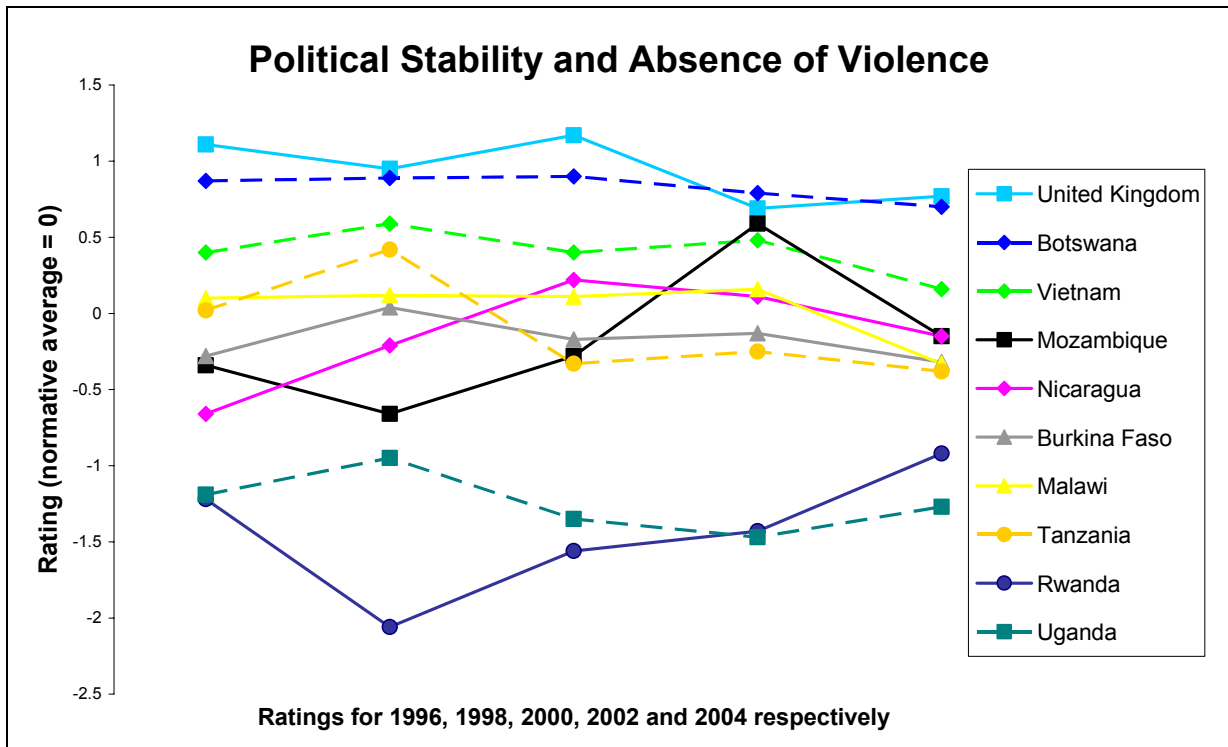
**Uganda**, which starts quite low, shows further deterioration by 2000, then an improvement from 2000 to 2004 bringing it back to just below its 1996 score, and above only Rwanda and Vietnam.

**Tanzania**, starting above only Rwanda and Vietnam, improves sharply up to 2000. The period 2000–2002 shows a decline and offsets the progress made in 1998–2000. A slight upward trend from 2002 gives it a higher score than Burkina Faso, Malawi and Uganda (as well as Rwanda and Vietnam) in 2004.

**Vietnam** starts low, above only Rwanda. Its score then falls low (below Rwanda's) in 1998. A further downward trend between 2002 and 2004 brings it to below its initial score, and well below all others.

**Rwanda** starts from a very low level and does not show any improvement, until a small increase from 2002 to 2004 raises it above Vietnam's score.

Figure A4: Governance Indicators for Political Stability and Absence of Violence



*Political Stability and Absence of Violence* combines several indicators which measure perceptions of the likelihood that the government in power will be destabilized or overthrown by possibly unconstitutional and/or violent means, including domestic violence and terrorism.

**Overall:** It is striking that the gap between our eight countries and Botswana and the UK appears to be much smaller than for other dimensions of governance. Overall, therefore, this is the indicator which presents the most optimistic picture for the eight countries studied in the GBS evaluation study. It would have been surprising to find a really poor performer among the ‘GBS countries’ though, as it is likely that serious political instability is a deterrent for donors to provide GBS.

**Vietnam** scores consistently well with the best score among our eight countries, except for 2002 when it is caught up by Mozambique.

**Malawi** starts high (just below Vietnam) in 1996 and slowly but consistently improved its score between 1996 and 2002. In 2002 it was ranked 3<sup>rd</sup> best in our sample. However, it deteriorated sharply from 2002 to 2004, with the 2004 rating above only Tanzania, Rwanda and Uganda.

**Mozambique** starts mid-group in 1996 and, after a declining score in 1998, makes a strong upward turn in 1998–2002. However, it then records a sharp downturn between 2002 and 2004.

In contrast, **Tanzania** starts with a high score (below only Vietnam and Malawi) but displays a sharp deterioration between 1998 and 2000. By 2004 its score is higher than only Rwanda and Uganda.

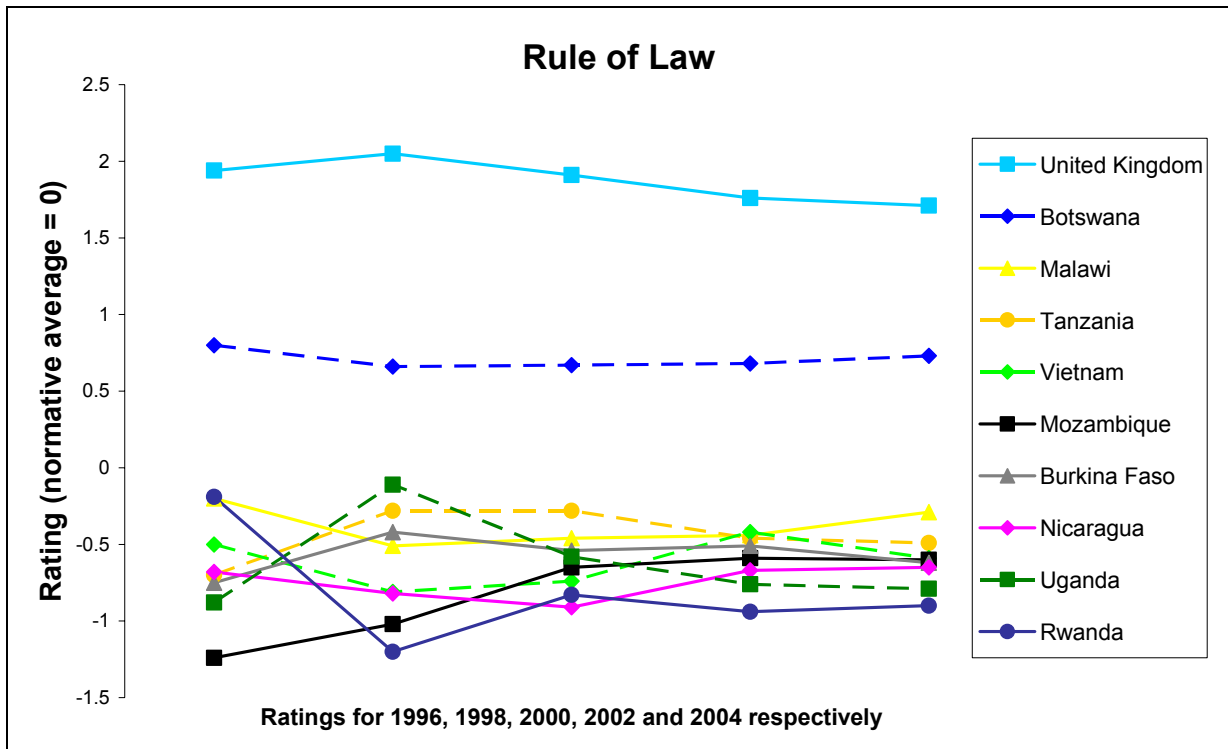
**Burkina Faso’s** position oscillates very slightly (with its highest score in 1998), ending in 2004 with a mid-group score, just below its own 1996 level.

**Nicaragua**, which starts with the 3<sup>rd</sup> lowest score in the group, displays a decidedly upward trend up to 2000, and then shows a downward turn from 2000 to 2004 bringing it back to just above the 1998 level.

**Rwanda**, which starts with the lowest score in 1996 just below Uganda, falls significantly by 1998 and then recovers and makes a strong upward turn from 1998 to 2004, bringing it above Uganda in 2004.

**Uganda** has the second lowest score in 1996 and, with the exception of a slight peak in 1998, deteriorates further and is the lowest of the group in 2002 and 2004.

Figure A5: Governance Indicators for Rule of Law



*Rule of Law* includes several indicators which measure the extent to which agents have confidence in and abide by the rules of society. These include perceptions of the incidence of crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts.

**Overall:** Mozambique is the only country which consistently improves over the period. Long term trends are unclear for Tanzania, Malawi, Burkina Faso, Nicaragua and Vietnam. Uganda improves slightly but with pronounced ups and downs. Rwanda shows a deteriorating relative performance though with a very slight upturn recently.

**Malawi** starts with the second highest score in 1996, just below Rwanda, and ends with the highest rating of the group for 2004, although its relative position dips in the intervening period.

**Rwanda** starts with the highest score in 1996, deteriorates sharply by 1998 (with its lowest score in the period), has a slightly higher score in 2000 but declines slightly to finish in 2004 with the lowest score.

**Vietnam** shows a curve first downward then upward, which gives it a slightly better score in 2002 than in 1996. From 2002, it displays a downward trend bringing the 2004 rating below that of Malawi and Tanzania.

**Tanzania** shows a curve upward to 1998, flat to 2000, then a slight deterioration to 2004. In 2004 it is second in the group below Malawi.

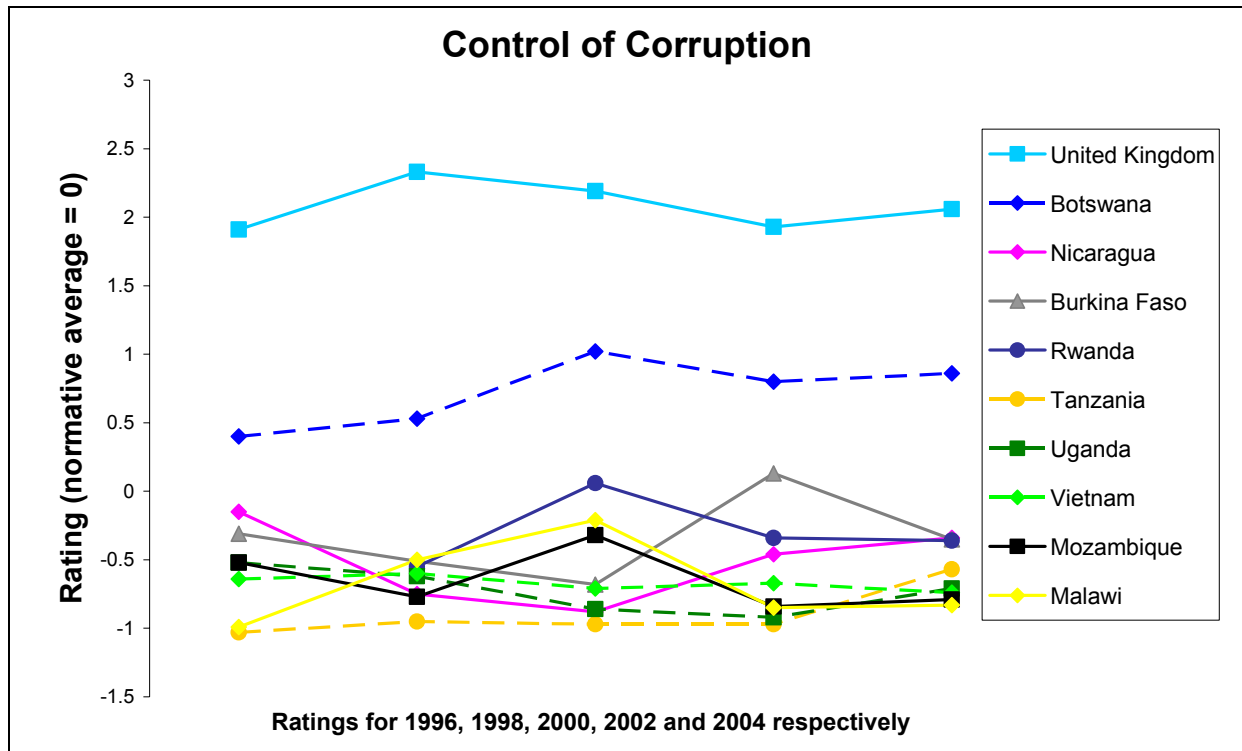
**Burkina Faso** starts above Uganda and Mozambique, oscillates and ends with a final score just higher than its score in 1996, and above Nicaragua, Uganda and Rwanda.

**Nicaragua** deteriorates between 1996 and 2000, and starts to recover from 2000, but the 2004 score is low, above only Uganda and Rwanda.

**Uganda** displays pronounced ups and downs. Its performance improves greatly between 1996 and 1998, but then deteriorates sharply by 2002. It then remains almost flat between 2002 and 2004, scoring the second lowest in the group in 2004.

**Mozambique**, starting from the lowest score by far in 1996, improves consistently and finishes on a par with Vietnam, Nicaragua and Burkina Faso, and above Uganda and Rwanda.

Figure A6: Governance Indicators for Control of Corruption



**Control of Corruption** measures perceptions of corruption, conventionally defined as the exercise of public power for private gain.

**Overall:** There is no easily discernible general trend, but recent trends are good for three countries, Nicaragua, Tanzania and Uganda, though these have the three lowest scores in 2000. Three countries show deterioration in the last two years, namely Burkina Faso, Rwanda and Vietnam.

**Nicaragua**, starting with the highest score in 1996, deteriorates up to 2000 at which point there is a relatively sharp upward trend leaving it again with the highest score in 2004 (but below its 1996 score).

**Burkina Faso** displays a similar trajectory, though its position improves more rapidly than Nicaragua's, giving it the highest score in 2002. A downward trend from 2002 brings it below Nicaragua in 2004.

**Uganda** deteriorates slowly but consistently over the period 1996–2002 and then shows a slight upward trend from 2002 to 2004.

**Mozambique** oscillates, with relatively higher scores in 1996 and 2000, but finishes with a final score lower than the initial one.

**Vietnam** retains a mid-group position (above Malawi, Tanzania, Rwanda) with a slight downward trend in performance overall from 1996 to 1997, finishing above Mozambique and Malawi.

**Tanzania** is consistently at the bottom of the scores of our eight countries, until an improvement from 2002 to 2004 raises its score above Uganda, Vietnam, Mozambique and Malawi.

**Malawi**, which starts with a low score (just above Tanzania), first improves up to 2000, only to fall back close to its initial score by 2002. With almost a flat trend 2002 to 2004, its 2004 scores are the lowest of the group.

**Rwanda** displays a sharp peak in 2000 (there is no value for 1996). Its performance then deteriorates until 2002, followed by an imperceptibly downward trend from 2002 to 2004. It has the third highest score of the group in 2004, below Nicaragua and Burkina Faso.

## Source Data

5. The data sources reflect the perceptions of a very diverse group of respondents. For 2004, the World Bank uses 352 variables drawn from 32 sources and 30 different organizations. Several of the data sources are surveys of individuals or domestic firms with first-hand knowledge of the governance situation in the country. The World Bank also captures the perceptions of country analysts at the major multilateral development agencies, reflecting these individuals' in-depth experience working on the countries they assess. Other data sources, from non-governmental organisations as well as commercial risk rating agencies, base their assessments on a global network of correspondents typically living in the country they are rating. The data and methodology used to construct the indicators are described in *Governance Matters IV: Governance Indicators for 1996–2004* (Kaufmann et al 2005).

6. A change over time in the governance indicators could be attributed to four factors. First of all, it could come from a change in the score assigned to a country by the same source over time. This is the most common and relevant factor, directly reflecting changes in perceptions of the country's performance. A second factor is the addition of new sources whose ratings might be different from the average ratings from pre-existing sources. Changes over time in relative performance may also reflect the addition of new countries to the aggregate indicator. If for example a country is added with a governance rating that is high relative to those countries already in the index, then by construction all the countries which rank lower than this country will receive lower scores. Finally, a change in a country's performance could derive from a change in the weights in the aggregation procedure. Overall, however, these last two factors typically have only very small effects on changes. (Source: <http://www.worldbank.org/wbi/governance/govdata/>)

## 7. Governance Scores

### Government Effectiveness

	1996	1998	2000	2002	2004
UK	2.08	2.47	2.01	2.08	1.85
Botswana	0.33	0.52	0.98	0.91	0.83
Vietnam	-0.1	-0.17	-0.3	-0.29	-0.31
Tanzania	-1.18	-0.39	-0.28	-0.5	-0.37
Mozambique	-0.72	-0.21	-0.31	-0.35	-0.39
Uganda	-0.37	-0.11	-0.16	-0.38	-0.43
Burkina Faso	-0.76	-0.08	-0.14	-0.59	-0.52
Rwanda	-1.26	-0.69	-0.11	-0.72	-0.56
Nicaragua	-0.46	-0.53	-0.71	-0.85	-0.71
Malawi	-0.69	-0.54	-0.65	-0.63	-0.81

### Regulatory Quality

	1996	1998	2000	2002	2004
UK	1.82	1.6	1.69	1.78	1.62
Botswana	0.69	0.69	0.79	0.79	0.96
Uganda	0.1	0.42	0.16	-0.02	0.07
Nicaragua	-0.21	0.45	0.32	-0.41	-0.15
Burkina Faso	-0.27	-0.23	0.01	-0.17	-0.26
Mozambique	-0.98	-0.29	-0.05	-0.52	-0.29
Rwanda	-1.09	-0.94	-0.54	-0.89	-0.42
Tanzania	-0.52	0.21	0.07	-0.5	-0.55
Malawi	-0.43	0.1	-0.1	-0.39	-0.57
Vietnam	-0.56	-0.58	-0.65	-0.68	-0.57

### Voice and Accountability

	1996	1998	2000	2002	2004
UK	1.38	1.4	1.39	1.48	1.37
Botswana	0.74	0.77	0.78	0.73	0.73
Nicaragua	-0.22	-0.01	-0.08	0.09	0.06
Mozambique	-0.2	-0.1	-0.28	-0.26	-0.13
Tanzania	-0.77	-0.4	-0.15	-0.41	-0.35
Burkina Faso	-0.46	-0.24	-0.31	-0.27	-0.38
Malawi	-0.43	-0.1	-0.28	-0.56	-0.5
Uganda	-0.63	-0.61	-0.94	-0.77	-0.64
Rwanda	-1.43	-1.5	-1.46	-1.41	-1.09
Vietnam	-1.31	-1.64	-1.53	-1.36	-1.54

### Political Stability and Absence of Violence

	1996	1998	2000	2002	2004
UK	1.11	0.95	1.17	0.69	0.77
Botswana	0.87	0.89	0.9	0.79	0.7
Vietnam	0.4	0.59	0.4	0.48	0.16
Mozambique	-0.34	-0.66	-0.28	0.59	-0.15
Nicaragua	-0.66	-0.21	0.22	0.11	-0.15
Burkina Faso	-0.28	0.04	-0.17	-0.13	-0.32
Malawi	0.1	0.12	0.11	0.16	-0.33
Tanzania	0.02	0.42	-0.33	-0.25	-0.38
Rwanda	-1.22	-2.06	-1.56	-1.43	-0.92
Uganda	-1.19	-0.95	-1.35	-1.47	-1.27

### Rule of Law

	1996	1998	2000	2002	2004
UK	1.94	2.05	1.91	1.76	1.71
Botswana	0.8	0.66	0.67	0.68	0.73
Malawi	-0.2	-0.51	-0.46	-0.44	-0.29
Tanzania	-0.7	-0.28	-0.28	-0.46	-0.49
Vietnam	-0.5	-0.81	-0.74	-0.42	-0.59
Mozambique	-1.24	-1.02	-0.65	-0.59	-0.6
Burkina Faso	-0.75	-0.42	-0.54	-0.51	-0.62
Nicaragua	-0.68	-0.82	-0.91	-0.67	-0.65
Uganda	-0.88	-0.11	-0.58	-0.76	-0.79
Rwanda	-0.19	-1.2	-0.83	-0.94	-0.9

### Control of Corruption

	1996	1998	2000	2002	2004
UK	1.91	2.33	2.19	1.93	2.06
Botswana	0.4	0.53	1.02	0.8	0.86
Nicaragua	-0.15	-0.75	-0.88	-0.46	-0.34
Burkina Faso	-0.31	-0.51	-0.68	0.13	-0.35
Rwanda		-0.55	0.06	-0.34	-0.36
Tanzania	-1.03	-0.95	-0.97	-0.97	-0.57
Uganda	-0.52	-0.62	-0.86	-0.92	-0.71
Vietnam	-0.64	-0.6	-0.71	-0.67	-0.74
Mozambique	-0.52	-0.77	-0.32	-0.84	-0.79
Malawi	-0.99	-0.5	-0.21	-0.85	-0.83

Source: <http://www.worldbank.org/wbi/governance/govdata/>

Note: all indexes are based on a normative average of 0.



## **Annex B: Summary of Partnership General Budget Support Financial Flows**

### **Contents**

#### **Standard Summary of Partnership General Budget Support (PGBS) Flows – Country Comparison**

Box B1: Total Official Development Assistance (ODA) and PGBS disbursed and % of PGBS/total ODA and ODA/Gross National Income (GNI)

Box B2: Summary Table by Country (ODA and PGBS)

Box B3: Summary Table by Data Line (ODA and PGBS)

#### **Standard Summary of PGBS Flows – by Country**

Table B1: Burkina Faso

Table B2: Malawi

Table B3: Mozambique

Table B4: Nicaragua

Table B5: Rwanda

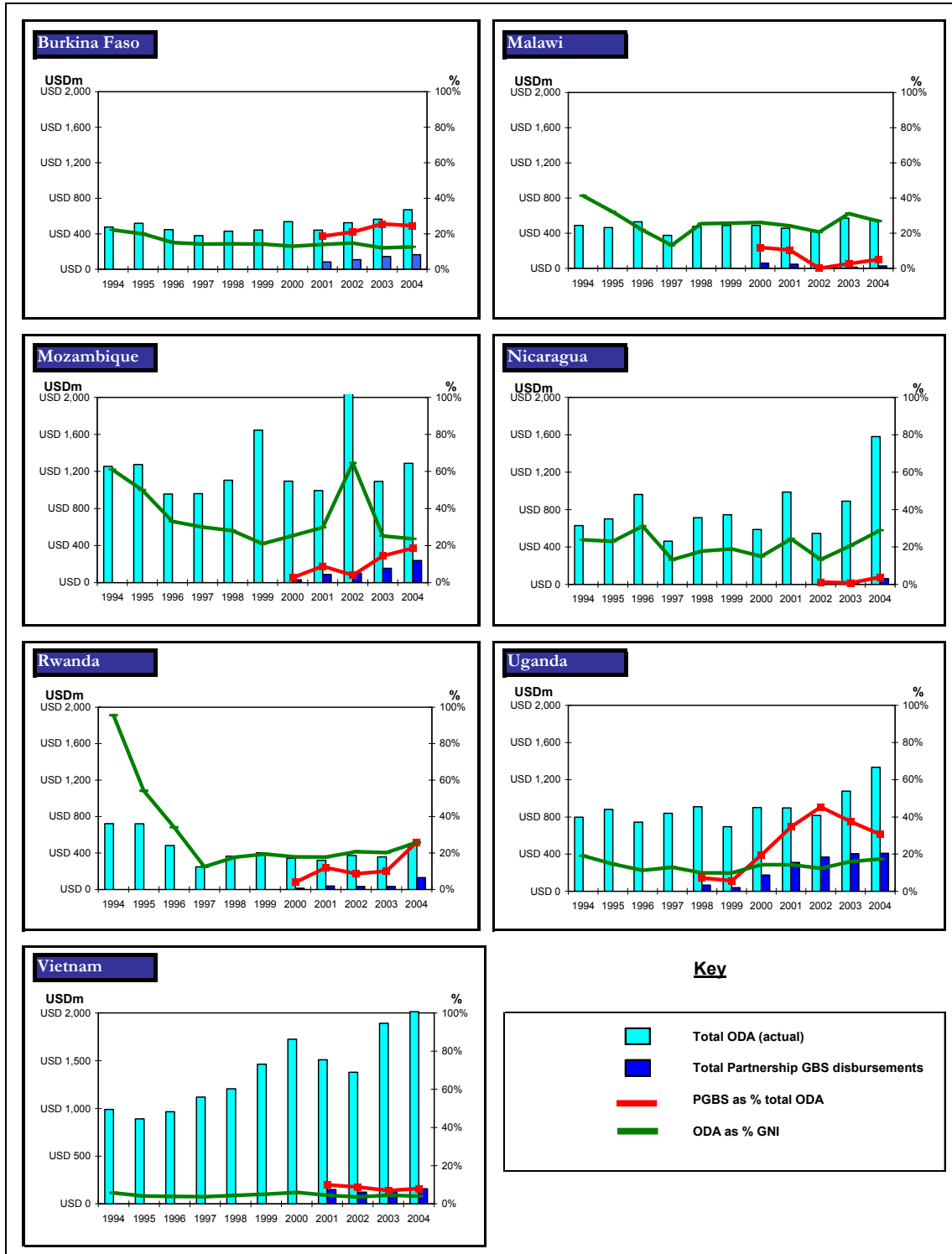
Table B6: Uganda

Table B7: Vietnam

#### **Note on Data and Sources**

Standard Summary of PGBS Flows – country comparison

Box B1: Total ODA and PGBS disbursed and % of PGBS/total ODA and ODA/GNI



## Box B2: Summary Table by Country (ODA and PGBS)

All data in USD million unless indicated otherwise	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>BF</b>											
Total ODA (actual)	476	519	447	379	429	443	537	441	524	564	672
Total Partnership GBS disbursements								82	109	144	165
PGBS as % total ODA (%)								19%	21%	26%	25%
ODA as % GNI (%)	22%	20%	15%	14%	14%	14%	13%	14%	15%	12%	13%
<b>Mal</b>											
Total ODA (actual)	488	464	530	375	477	489	489	455	423	571	555
Total Partnership GBS disbursements							58	48	0	14	28
PGBS as % total ODA (%)							12%	11%	0%	3%	5%
ODA as % GNI (%)	41%	32%	22%	13%	25%	26%	26%	24%	21%	31%	27%
<b>Moz</b>											
Total ODA (actual)	1,255	1,275	957	959	1,107	1,647	1,096	993	2,330	1,092	1,289
Total Partnership GBS disbursements							30	88	101	154	239
PGBS as % total ODA (%)							3%	9%	4%	14%	19%
ODA as % GNI (%)	61%	50%	33%	30%	28%	21%	25%	30%	65%	25%	24%
<b>Nic</b>											
Total ODA (actual)	629	701	962	463	714	746	588	988	546	890	1,582
Total Partnership GBS disbursements									6	8	63
PGBS as % total ODA (%)									1%	1%	4%
ODA as % GNI (%)	24%	23%	31%	13%	18%	19%	15%	24%	13%	21%	29%
<b>Rwa</b>											
Total ODA (actual)	723	721	481	247	366	403	342	320	375	357	501
Total Partnership GBS disbursements							14	37	33	34	130
PGBS as % total ODA (%)							4%	12%	9%	10%	26%
ODA as % GNI (%)	96%	54%	34%	13%	18%	19%	18%	18%	21%	20%	26%
<b>Uga</b>											
Total ODA (actual)	798	881	743	839	909	696	901	897	815	1,077	1,335
Total Partnership GBS disbursements					66	39	176	311	369	405	409
PGBS as % total ODA (%)					7%	6%	20%	35%	45%	38%	31%
ODA as % GNI (%)	19%	15%	11%	13%	10%	10%	14%	14%	12%	16%	17%
<b>VN</b>											
Total ODA (actual)	990	891	965	1,119	1,204	1,462	1,725	1,509	1,378	1,892	2,013
Total Partnership GBS disbursements								150	123	140	157
PGBS as % total ODA (%)								10%	9%	7%	8%
ODA as % GNI (%)	6%	4%	4%	4%	4%	5%	6%	5%	4%	5%	4%

**Box B3: Summary Table by Data Line (ODA and PGBS)**

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Total ODA (actual) (USDm)</b>											
<b>BF</b>	476	519	447	379	429	443	537	441	524	564	672
<b>Mal</b>	488	464	530	375	477	489	489	455	423	571	555
<b>Moz</b>	1,255	1,275	957	959	1,107	1,647	1,096	993	2,330	1,092	1,289
<b>Nic</b>	629	701	962	463	714	746	588	988	546	890	1,582
<b>Rwa</b>	723	721	481	247	366	403	342	320	375	357	501
<b>Uga</b>	798	881	743	839	909	696	901	897	815	1,077	1,335
<b>VN</b>	990	891	965	1,119	1,204	1,462	1,725	1,509	1,378	1,892	2,013
<b>Total Partnership GBS disbursements (USDm)</b>											
<b>BF</b>								82	109	144	165
<b>Mal</b>							58	48	0	14	28
<b>Moz</b>							30	88	101	154	239
<b>Nic</b>									6	8	63
<b>Rwa</b>							14	37	33	34	130
<b>Uga</b>					66	39	176	311	369	405	409
<b>VN</b>								150	123	140	157
<b>PGBS as % total ODA (%)</b>											
<b>BF</b>								19%	21%	26%	25%
<b>Mal</b>							12%	11%	0%	3%	5%
<b>Moz</b>							3%	9%	4%	14%	19%
<b>Nic</b>									1%	1%	4%
<b>Rwa</b>							4%	12%	9%	10%	26%
<b>Uga</b>					7%	6%	20%	35%	45%	38%	31%
<b>VN</b>								10%	9%	7%	8%
<b>ODA as % GNI (%)</b>											
<b>BF</b>	22%	20%	15%	14%	14%	14%	13%	14%	15%	12%	13%
<b>Mal</b>	41%	32%	22%	13%	25%	26%	26%	24%	21%	31%	27%
<b>Moz</b>	61%	50%	33%	30%	28%	21%	25%	30%	65%	25%	24%
<b>Nic</b>	24%	23%	31%	13%	18%	19%	15%	24%	13%	21%	29%
<b>Rwa</b>	96%	54%	34%	13%	18%	19%	18%	18%	21%	20%	26%
<b>Uga</b>	19%	15%	11%	13%	10%	10%	14%	14%	12%	16%	17%
<b>VN</b>	6%	4%	4%	4%	4%	5%	6%	5%	4%	5%	4%

## Standard Summary of PGBS Flows – by country

Table B1: Burkina Faso – Summary of PGBS Flows

(all in USD million unless indicated otherwise)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Source
(A) Total ODA (actual) [1]	475.70	519.35	447.35	378.46	429.39	442.52	536.46	440.60	524.02	564.17	672.14	OECD DAC
(B) Total ODA excl. emergency and food aid (actual) [1]	474.47	505.64	435.06	358.14	414.92	426.78	522.75	423.14	500.54	554.24	658.02	OECD DAC
(C) Total Partnership GBS disbursements [2]	0.00	0.00	0.00	0.00	0.00	0.00	0.00	82.20	108.88	143.91	165.04	Annex 3A, Table 3A.1
Donors providing PGBS								WB (PRSC-1), EC, Netherlands, Sweden, Switzerland	WB; AfDB; EC; Netherlands; Sweden; Switzerland	Same + France + Belgium	Same minus Belgium	
(D) [ESAF programmes] PRGF	[25.45]	[26.8]	[9.58]	NA	[17.99]	[16.93]	7.27	21.36	14.51	4.74	5.17	IMF website
(E) Total other unearmarked programme aid disbursements	149.08	146.94	71.64	46.90	73.70	64.51	32.17	0.00	0.00	0.00	0.00	Annex 3A, Table 3A.1
Donors providing unearmarked programme aid	IMF, WB, EC, France, Belgium, Sweden, Switzerland	IMF, WB, AfDB, EC, France, Netherlands, Sweden, Switzerland	IMF, WB, EC, France, Denmark, Netherlands	IMF, EC, Netherlands, Switzerland	Denmark, EC, IMF, Netherlands, Switzerland, WB	Denmark, EC, Netherlands, Switzerland, WB	EC, Switzerland, WB					
(F) HIPC funding	n/a	n/a	n/a	n/a	n/a	n/a	9.21	38.20	42.81	74.82	12.42	Annex 3A, Table 3C.6
(G) Central Government Expenditure [3]	409.67	494.95	452.65	558.02	590.73	701.32	601.71	531.81	606.33	834.01	1,122.41	IMF International Financial Statistics (IFS)
(Ga) ODA as % of GNI	22.13%	20.01%	15.09%	14.16%	14.32%	14.19%	12.94%	13.98%	14.79%	12.14%	12.67%	OECD DAC
(H) PGBS as % total ODA (%)	0%	0%	0%	0%	0%	0%	0%	18.66%	20.78%	25.51%	24.55%	
(I) PGBS as % central government expenditure (%)	0%	0%	0%	0%	0%	0%	0%	15.46%	17.96%	17.26%	14.70%	

## Notes

[1] OECD DAC data is in calendar years. OECD DAC data in nominal terms. OECD DAC total ODA data is new loans extended plus grants disbursed.

[2] In line with annex 3A (inventory), PGBS is considered to have started with PRSC-1 for the WB; for other IPs, the formal starting point is taken as 2002 i.e. the date of signature of the SBC-CSLP, but 2001 disbursements are considered as GBS as well as annex 3A (inventory), already according to the conditions of the SBC-CSLP. procedures under negotiation. GBS provided by France and AfDB during the period 2002-04 is considered as PGBS as it was disbursed on the same conditions, even although France and AfDB freely according to second GBS joint agreement (CGAB-CSLP) as well as WB with PRSC-5, in 2005.

[3] Summary statistics of government finance are given in IMF IFS section 80. Data generally are as reported for IFS. Data cover operations of the budgetary central government or of the consolidated central government (i.e., operations of budgetary central statistics of extrabudgetary units, and social security funds). The coverage of consolidated central government may not necessarily include all existing extrabudgetary units and/or social security funds. The data are flows and are on a cash basis. Expend (in IMF IFS section 82) comprises all nonrepayable payments by government, whether required or unrequited and whether for current or capital purposes.

## Memorandum items

(J) Emergency Aid	no data	1.25	2.30	4.44	1.22	0.47	0.69	1.19	1.66	1.95	1.19	OECD DAC
(K) Development Food Aid	1.23	12.46	9.99	15.88	13.25	15.27	13.02	16.27	21.82	7.98	12.93	OECD DAC
(L) Government Expenditure (CFA Franc millions)	227,449.00	247,053.00	231,552.00	325,700.00	348,500.00	431,800.00	428,400.00	389,841.00	422,606.00	484,727.00	592,953.00	IMF IFS
(M) OFFICIAL RATE (Units: National Currency per US Dollar)(period averages)	555.21	499.15	511.55	583.67	589.95	615.70	711.98	733.04	696.99	581.20	528.29	IMF IFS

Evaluation of GBS – Synthesis Report

Table B2: Malawi – Summary of PGBS Flows

(all in USD million)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Source
(A) Total ODA (actual)	488.42	464.17	530.13	375.44	476.49	488.64	488.79	455.13	423.05	570.72	554.96	OECD DAC
(B) Total ODA excl. emergency & food aid (actual)	474.86	409.24	511.68	365.54	454.50	461.32	466.52	438.86	378.65	506.16	531.60	OECD DAC
(C) Total Partnership GBS disbursements [1]	0	0	0	0	0	0	58.34	47.82	0	14.01	28.23	Reserve Bank of Malawi
<i>Donors providing PGBS</i>							Denmark, Norway, UK	Denmark, EC, UK		Norway, UK	EC, Norway, UK	Reserve Bank of Malawi
(D) [ESAF programmes] followed by PRGF (disbursements) [2]	[8.02]	[11.5]	[22.21]	0	[17.35]	[10.49]	12.27	0	0	9.26	0	OECD DAC (1994–99) loans extended and Reserve Bank of Malawi (2000–04)
(E) Total other unearmarked programme aid disbursements	194.98	106.09	194.51	115.93	130.48	102.09	62.49	59.41	36.18	36.23	7.80	Reserve Bank of Malawi
<i>Donors providing unearmarked programme aid</i>	AfDB, EC, IDA, Germany, UK, USA	EC, IDA, Germany, Norway, Switzerland, UK, USA	Denmark, IDA, Germany, Netherlands, UK, USA	AfDB, Denmark, EC, IDA, Germany, Netherlands, Sweden, UK, USA	Denmark, EC, IDA, Norway, Sweden, UK, USA	AfDB, Denmark, EC, IDA, Norway, Sweden, UK, USA	IDA, Netherlands, Norway, UK, USA	IDA, Netherlands	IDA, USA	IDA, USA	IDA	Reserve Bank of Malawi
(F) HIPC funding	0	0	0	0	0	0	0	27.06	28.88	47.56	25.13	Reserve Bank of Malawi
(G) Central Government Expenditure (USD) [3]	545.60	1,375.84	957.84	556.47	696.49	499.72	600.94	973.50	636.93	748.74	762.40	Ministry of Finance/Reserve Bank of Malawi/IMF
(Ga) ODA as % of GNI	41.33%	32.20%	21.92%	13.11%	25.42%	25.75%	26.13%	24.17%	20.72%	31.19%	26.90%	OECD DAC
(H) PGBS as % total ODA (%)	0%	0%	0%	0%	0%	0%	11.94%	10.51%	0%	2.45%	5.09%	
(I) PGBS as % central government expenditure (%)	0%	0%	0%	0%	0%	0%	9.71%	4.91%	0%	1.87%	3.70%	

Notes

[1] PGBS in Malawi is defined as GBS provided by the CABS group of donors (CABS=Common Approach to Budget Support).  
The data in the Country report is by Malawi fiscal year while the data in the above table by calendar year converted from Malawi Kwacha to USD using annual average annual exchange rate.  
The data by RBM deviate from donors' own disbursement data - this is because some GBS has been used directly for foreign exchange operations without crediting the Treasury revenue account.  
[2] PRGF funds are sterilised, i.e. have no budget impact.  
[3] By Malawi Fiscal Year July–June.

Memorandum items

(J) Emergency Aid		12.26	2.76	2.30	2.62	6.07	0.79	1.47	15.79	25.40	6.93	OECD DAC
(K) Development Food Aid	13.56	42.67	15.69	7.60	19.37	21.25	21.48	14.80	28.61	39.16	16.43	OECD DAC
(L) Government Expenditure (MKW million)	2,428	6,123	7,864	8,457	13,844	19,736	27,229	37,850	42,490	61,322	78,598	Ministry of Finance/Reserve Bank of Malawi/IMF
(M) Average Annual Exchange rates - calendar year (MKW per USD)	4.45	4.98	15.18	16.11	28.81	43.76	46.82	43.63	73.58	93.37	106.16	OANDA Corporation
(N) Average Annual Exchange rates - fiscal year (MKW per USD)	4.45	4.45	8.21	15.20	19.88	39.49	45.31	38.88	66.71	81.90	103.09	OANDA Corporation

Annex B: Summary of Financial Flows

Table B3: Mozambique – Summary of PGBS Flows

(all in USD million unless indicated otherwise)		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Source
(A)	Total ODA (actual) [1]	1,255.44	1,275.30	956.66	959.38	1,106.58	1,646.84	1,096.33	992.47	2,330.26	1,092.22	1,289.13	OECD DAC
(B)	Total ODA excl. emergency and food aid (actual) [1]	1,229.11	1,178.28	894.78	893.98	1,049.29	1,598.27	956.95	870.91	2,272.42	1,041.01	1,217.22	OECD DAC
(C)	Total Partnership GBS disbursements [2]	0	0	0	0	0	0	29.50	88.17	100.70	153.70	239.41	PAP as cited Annex 3A Inventory
	Donors providing PGBS							Netherlands, Norway, UK	Denmark, EC, Ireland, Netherlands, Norway, Sweden, Switzerland, UK	Denmark, EC, Ireland, France, Netherlands, Norway, Sweden, Switzerland, UK	Denmark, EC, Finland, France, Ireland, Netherlands, Norway, Sweden, Switzerland, UK	Belgium, Denmark, EC, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, UK, WB	
(D)	[ESAF programmes] followed by PRGF (disbursements) [3]	[21]	[0]	[18]	[35]	[25]	21.00	45.20	8.40	8.40	8.40	2.40	IMF (various) cited Annex 3A Inventory
(E)	Total other unearmarked programme aid (disbursements) [4]	-	-	95.63	168.96	128.49	197.85	24.40	50.42	110.88	94.23	16.35	Annex 3A Inventory
	Donors providing unearmarked programme aid			Canada, EC, Italy, Japan, Sweden	Denmark, EC, Sweden, WB	Denmark, EC, Japan, UK	Finland, Sweden, UK, WB	EC, Netherlands, Norway, Sweden, UK	Denmark, EC, Ireland, Italy, Netherlands, Norway, Sweden, Switzerland, UK	Denmark, EC, Ireland, Japan, Italy, France, Netherlands, Norway, Sweden, Switzerland, UK	Denmark, EC, Finland, France, Ireland, Netherlands, Norway, Sweden, Switzerland, UK, WB	Belgium, Denmark, EC, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Sweden, Switzerland, UK, WB	
(F)	HIPC funding	0	0	0	0	0	373.00	501.18	1077.63	523.00	347.96	484.00	MPF
(G)	Central Government Expenditure [5]	154.34	113.59	103.90	112.17	757.89	919.08	1,080.39	1,145.55	1,182.81	1,216.07	1,468.77	MPF
(Ga)	ODA as % of GNI	60.46%	49.89%	33.22%	29.46%	28.40%	21.31%	25.39%	29.79%	64.63%	25.17%	23.62%	OECD DAC
(H)	PGBS as % total ODA (%)							2.69%	8.88%	4.32%	14.07%	18.57%	
(I)	PGBS as % central government expenditure (%)							2.73%	7.70%	8.51%	12.64%	16.30%	

Notes

[1] OECD DAC data is in calendar years. All other data is in financial years (1994 = FY1994/95)

[2] In line with the Annex 3A (inventory), PGBS started in 2000

[3] This includes financing disbursed under ESAF (1999–2001)

[4] These data should be treated with care as they are not complete.

[5] This data include liquid borrowing. 1999–2003 these figures correspond to the executed budget. 2004 the figures correspond to the programmed budget.

Memorandum items

(J)	Emergency Aid	no data	22.1	13.95	12.54	8.29	10.56	100.04	78.72	13.95	6.19	17.08	OECD DAC
(K)	Development Food Aid	26.3	74.9	47.9	52.9	49.0	38.0	39.3	42.8	43.9	45.02	54.8	OECD DAC
(L)	Government Expenditure (Meticais billions)	913.4	1,009.8	1,157.4	1,278.2	9,372.0	11,662.6	16,950.7	23,718.7	27,991.9	28,921.0	33,166.7	MPF
(M)	USD/MTs (Exchange rates refer to period averages)	5,918.0	8,890.0	11,140.0	11,395.0	12,366.0	12,691.0	15,699.0	20,707.0	23,666.0	23,728.0	22,581.0	MPF

Table B4: Nicaragua – Summary of PGBS Flows

(all in USD million unless indicated otherwise)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Source
<b>(A) Total ODA (actual) [1]</b>	628.7	700.8	961.5	462.9	713.7	745.6	588.2	987.9	546.1	889.5	1,581.8	OECD DAC cited Annex 3A
<b>(B) Total ODA excl. emergency and food aid (actual) [1]</b>	624.6	683.4	929.8	432.6	651.5	684.2	547.7	951.6	504.3	854.4	1,546.8	OECD DAC cited Annex 3A
<b>(C) Total Partnership GBS disbursements [2]</b>	0	0	0	0	0	0	0	0	6.4	7.7	62.6	Annex 3B.2 Inventory
<i>Donors providing PGBS</i>									Sweden	Sweden	EC, Sweden, WB	
<b>(D) [ESAF programmes] followed by PRGF (disbursements)</b>	[28.6]	0	0	0	[22.8]	69.3	15.5	0	5.1	14.0	17.9	OECD DAC 1994–1998 total loans extended and IMF 1999–2004
<b>(E) Total other unearmarked programme aid disbursements [3]</b>	217.0	72.0	84.0	47.0	unknown				52.6	79.0	50.4	1994–1997 Central Bank of Nicaragua, Dijkstra. 2002–2004 MINREX 2005.
<i>Donors providing unearmarked programme aid</i>	IADB, IMF, WB and bilaterals								WB and unknown	WB and unknown	unknown	
<b>(F) HIPC funding</b>	0	0	0	0	0	0	0	99.4	239.0	241.9	232.5	GON – ERCERP Progress Report
<b>(G) Central Government Expenditure [4]</b>	548.7	562.7	599.2	605.3	661.1	827.6	926.7	976.9	808.8	926.9	1,016.4	IMF International Financial Statistics (IFS)
<b>(Ga) ODA as % of GNI</b>	23.9%	23.1%	31.2%	13.2%	17.8%	19.0%	15.0%	24.4%	13.3%	20.7%	29.0%	OECD DAC
<b>(H) PGBS as % total ODA (%)</b>	0%	0%	0%	0%	0%	0%	0%	0%	1.2%	0.9%	4.0%	
<b>(I) PGBS as % central government expenditure (%)</b>	0%	0%	0%	0%	0%	0%	0%	0%	0.8%	0.8%	6.2%	

[1] OECD DAC data is in calendar years. OECD DAC data in nominal terms. OECD DAC total ODA data is new loans extended plus grants disbursed. OECD/DAC data for 2004 is provisional only.

[2] In line with Annex 3C (inventory), PGBS started in 2002 with Sweden GBS. In 2004 the WB (PRSC) and the EC (PAPSE) started disbursing GBS.

[3] Data on unearmarked programme aid pre-PGBS is not available by donor and by year for the evaluation period. Therefore this row remains incomplete.

[4] Summary statistics of government finance are given in IMF IFS section 80. Data generally are as reported for IFS. Data cover operations of the budgetary central government or of the consolidated central government (i.e., operations of budgetary central government, extrabudgetary units, and social security funds). The coverage of consolidated central government may not necessarily include all existing extrabudgetary units and/or social security funds. The data are flows and are on a cash basis. Expenditure (in IMF IFS section 82) comprises all nonrepayable payments by government, whether required or unrequired and whether for current or capital purposes. In nominal terms.

**Memorandum items**

<b>(J) Emergency Aid</b>	n/a	13.23	17.44	16.31	43.74	34.79	20.03	15.06	23.75	10.89	23.97	OECD DAC
<b>(K) Development Food Aid</b>	4.1	4.2	14.3	14.1	18.5	26.6	20.4	21.3	18.0	24.19	11.0	OECD DAC
<b>(L) Government Expenditure (NIO scale millions)</b>	3,688.7	4,245.9	5,054.8	5,719.3	6,995.4	9,773.8	11,754.5	13,062.9	11,527.1	14,000.0	16,199.2	IMF IFS
<b>(M) OFFICIAL RATE (Units: National Currency per US Dollar)</b>	6.7	7.5	8.4	9.4	10.6	11.8	12.7	13.4	14.3	15.1	15.9	IMF IFS



Table B5: Rwanda – Summary of PGBS Flows

(all in USD million unless indicated otherwise)		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Source
(A)	Total ODA (actual) [1]	722.98	721.22	481.05	246.92	365.60	403.21	342.34	320.08	374.89	357.01	500.47	OECD DAC
(B)	Total ODA excl. emergency and food aid (actual) [1]	707.08	487.93	320.31	131.13	264.91	314.26	323.50	295.18	345.24	321.61	450.32	OECD DAC
(C)	Total Partnership GBS disbursements [2]	0.00	0.00	0.00	0.00	0.00	0.00	13.68	37.44	32.48	34.18	129.67	
	<i>Donors providing PGBS</i>							DFID	DFID, SIDA	DFID, SIDA	DFID, EC, SIDA [2a]	DFID, EC, SIDA, WB	Annex 3A Table 3A.4
(D)	[ESAF programmes] followed by PRGF (disbursements)	[8.76]	[13.00]		[20.50]	[16.10]	29.30	25.10	12.10	0.70	0.80	1.70	IMF various
(E)	Total other unearmarked programme aid disbursements						55.94	44.22	67.77	75.65	22.36	41.93	Annex 3A Table 3A.3, Annex 3C.
	<i>Donors providing unearmarked programme aid</i>						EC, WB	EC, WB	EC, WB	EC, WB	EC, WB	EC, WB	See [3]
(F)	HIPC funding								23.94	25.61	27.10	28.35	See [4]
(G)	Central Government Expenditure (USD) [3]	188.69	265.19	311.45	365.58	374.96	411.03	346.43	362.13	400.99	346.28	no data	IMF International Financial Statistics (IFS)
(Ga)	ODA as % of GNI	95.51%	54.05%	34.09%	12.51%	17.65%	19.44%	17.93%	17.76%	20.73%	20.16%	25.80%	OECD DAC
(H)	PGBS as % total ODA (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	4.00%	11.70%	8.66%	9.57%	25.91%	
(I)	PGBS as % central government expenditure (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	3.95%	10.34%	8.10%	9.87%	no data	

**Notes**

[1] ODA consists of grants and total loans extended, as distinct from total net aid disbursed in Table A2.1 which includes net lending.

[2] In line with Annex 3B (inventory), PGBS excludes EC Structural Adjustment Facility (SAF) programmes and WB pre-PGBS policy lending programmes. IMF PRGF is considered as BOP.

[2a] EC: Planned disbursement of 1st tranche PPARP in 2003; took place in January 2004.

[3] IMF 2004 and 2005 (Third and Fourth Reviews under the Three-Year Arrangement under the PRGF); IMF 2002 (Article IV Consultation and Requests for a new PRGF).

[4] 2003 and 2004 (projected) figures from Minecofin Budget Framework Papers 2004–06 and 2005–07. 2001 and 2002 figures from IMF2004.

**Memorandum items**

(J)	Emergency Aid	0.19	163.37	135.75	83.9	63.99	63.51	14.36	8.58	13.88	10.99	38.93	OECD DAC
(K)	Development Food Aid	15.90	69.92	24.99	31.89	36.70	25.44	4.48	16.32	15.77	24.41	11.22	OECD DAC
(L)	Government Expenditure (Rw millions)	26,550	69,528	95,335	110,157	117,632	138,858	136,298	160,350	191,000	186,181	no data	
(M)	OFFICIAL RATE (Units: National Currency per US Dollar)	140.704	262.182	306.098	301.321	313.717	337.831	393.435	442.801	476.327	537.658	574.622	

Evaluation of GBS – Synthesis Report

Table B6: Uganda – Summary of PGBS Flows

(all in USD million unless indicated otherwise)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Source
(A) Total ODA (actual) [1]	797.49	880.74	743.34	839.32	909.36	695.61	901.28	897.01	815.27	1,076.47	1,334.84	OECD DAC cited Annex 3A
(B) Total ODA excl. emergency and food aid (actual) [1]	792.62	863.77	727.83	814.81	886.82	666.16	887.20	871.93	775.33	962.77	1,179.92	OECD DAC cited Annex 3A
(C) Total Partnership GBS disbursements [2]	0	0	0	0	66.43	39.16	175.86	311.20	369.00	404.83	408.80	MFPEP cited Annex 3B Inventory
<i>Donors providing PGBS</i>					IDA, Netherlands, UK, USAID	Belgium, Ireland, Netherlands, UK, USAID	Austria, Belgium, IDA, Ireland, Netherlands, Sweden, UK	Canada, EC, IDA, Ireland, Netherlands, Norway, Sweden, UK, USAID	Austria, Canada, EC, France, Germany, IDA, Ireland, Netherlands, Norway, Sweden, UK, USAID	AIDB, Canada, Denmark, EC, France, IDA, Ireland, Netherlands, Norway, Sweden, UK, USAID	Austria, Canada, Denmark, EC, France, Germany, IDA, Ireland, Italy, Netherlands, Norway, Sweden, UK	
(D) SAF and [ESAF programmes] followed by PRGF (disbursements)	52.54	55.80	63.15	0	[49.95]	[35.22]	11.78	11.37	1.94	5.60	2.96	OECD DAC 1993–2002 loans extended and MFPEP cited Annex 3B Inventory
(E) Total other unearmarked programme aid	168.4	53.00	111.05	67.00	94.25	109.20	60.30	35.53	0	0	0	MFPEP cited Annex 3B Inventory
<i>Donors providing unearmarked programme aid</i>					EC, IDA, UK	EC, IDA, UK	EC, IDA	AIDB, IDA				
(F) HIPC funding					37.20	56.22	74.39	80.70	93.10	61.70	64.67	Ministry of Finance Budget Speeches
(G) Central Government Expenditure	932.57	1,042.19	1,106.42	1,180.23	1,354.98	1,397.69	1,376.73	1,443.73	1,540.59	1,617.47	1,811.70	MFPEP cited Annex 4A
(Ga) ODA as % of GNI	19.1	14.65%	11.27%	13.01%	9.92%	9.92%	14.26%	14.32%	12.40%	15.85%	17.32%	OECD DAC
(H) PGBS as % total ODA (%)	0	0	0	0	7.31%	5.63%	19.51%	34.69%	45.26%	37.61%	30.63%	
(I) PGBS as % central government expenditure (%)	0	0	0	0	4.90%	2.80%	12.77%	21.56%	23.95%	25.03%	22.56%	

Notes

[1] OECD DAC data is in calendar years. All other data in financial years (1994 = FY1994/95)

[2] In line with the CR annex 3C (inventory), PGBS started in 1998 with notionally earmarked sector budget support and the Poverty Action Fund. There are three types of PGBS – Sector, PAF and Full PGBS

Memorandum items

(J) Emergency Aid	n/a	2.95	10.93	13.83	12.98	19.81	4.49	9.01	29.04	89.24	136.60	OECD DAC cited Annex 3A
(K) Development Food Aid	4.9	14.02	4.58	10.68	9.56	9.64	9.59	16.07	10.90	24.46	18.32	OECD DAC cited Annex 3A
(L) Government Expenditure (UGS billions)	913.4	1,009.80	1,157.40	1,278.20	1,680.60	2,033.40	2,264.01	2,534.70	2,769.29	3,176.26	3,279.70	MFPEP cited Annex 4A
(M) Exchange rates refer to period averages. USD/UGS	979.4	968.92	1,046.08	1,083.01	1,240.31	1,454.83	1,644.48	1,755.66	1,797.55	1,963.72	1,810.30	1994-2003 IMF - IFS; 2004 www.oanda.com

Annex B: Summary of Financial Flows

Table B7: Vietnam – Summary of PGBS Flows

(all in USD million unless indicated otherwise)		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Source
(A)	Total ODA (actual) [1]	989.65	891.40	964.67	1,118.61	1,204.38	1,461.48	1,725.25	1,509.24	1,378.24	1,891.72	2,012.65	OECD DAC
(B)	Total ODA excl. emergency and food aid (actual) [1]	987.23	885.00	955.98	1,109.09	1,199.00	1,453.89	1,710.95	1,499.31	1,371.24	1,871.92	1,988.86	OECD DAC
(C)	Total Partnership GBS disbursements [2]	0	0	0	0	0	0	0	150.00	122.60	140.00	157.00	Annex 3B – Table 3B.2 Inventory
	Donors providing PGBS								WB	Denmark, Netherlands, Sweden, UK, WB	Denmark, Netherlands, UK, WB	Same and AsDB, Canada, EC, Japan	
(D)	[ESAF programmes] followed by PRGF (disbursements)	0	0	0	0	0	0	0	105.00	77.00	0	0	Annex 3B – Table 3B.2 Inventory and IMF International Financial Statistics (IFS)
(E)	Total other unearmarked programme aid	0	0	0	0	0	217.00	71	0	0	0	0	
	World Bank SAC1 (1994–2000)												
	Japan Miyazawa						174.00	0	0	0	0	0	
	AsDB Programme lending (1995–2000) [3]												
	i) Agriculture sector loan						43.00	71.4	0	0	0	0	
	ii) Finance sector loan												
	Donors providing other unearmarked programme aid						Japan, IMF, AsDB	IMF, AsDB	IMF	IMF	None	None	
(F)	HIPC funding	0	0	0	0	0	0	0	0	0	0	0	
(G)	Central Government Expenditure (USD)	407.22	494.54	570.03	605.56	553.35	608.30	728.07	810.88	876.19	1,021.40	1,130.63	IMF Governance Finance Statistics (GFS)
(Ga)	ODA as % of GNI	5.70%	4.08%	3.87%	3.79%	4.41%	5.05%	5.47%	4.50%	3.64%	4.51%	4.05%	OECD DAC
(H)	PGBS as % total ODA (%)	0%	0%	0%	0%	0%	0%	0%	9.94%	8.90%	7.40%	7.80%	
(I)	PGBS as % central government expenditure (%)	0%	0%	0%	0%	0%	0%	0%	18.50%	13.99%	13.71%	13.89%	

Notes

[1] OECD DAC data for 2004 is provisional – data has not been collected from all donors. OECD DAC data is in nominal terms. OECD DAC total ODA data is new loans extended plus grants disbursed.

[2] In line with Annex 3B (inventory), PGBS is considered to have started with the PRSC 1 in 2002 by WB and co-financiers, and continued with PRSC 2, PRSC 3 and PRSC 4.

[3] The data for AsDB programme lending funds are estimates.

Memorandum items

(J)	Emergency Aid	no data	6.29	7.40	6.06	4.47	4.36	6.48	7.45	6.54	2.92	3.81	OECD DAC
(K)	Development Food Aid	2.42	0.11	1.29	3.46	0.91	3.23	7.82	2.48	0.46	16.88	19.98	OECD DAC
(L)	Central Government Expenditure (VND billion)	44,655	54,589	62,889	70,749	73,419	84,817	103,151	119,403	133,877	158,415	182,875	IMF GFS
(M)	Exchange rates refer to period averages.												
	USD/VND	10,965.70	11,038.30	11,032.60	11,683.30	13,268.00	13,943.20	14,167.70	14,725.20	15,279.50	15,509.60	16,174.58	1994–2003 IMF IFS; 2004 www.oanda.com

## Note on Data and Sources

### Categories

1. The standard summary table of PGBS flows provides annual data for 1994–2004 in a number of categories selected to give an overview of PGBS flows in relation to the government budget and other aid flows:

Row	Data	Source
A	Total ODA ( <i>new loans extended plus grants disbursed</i> )	OECD DAC international statistics database
B	Total ODA ( <i>excluding emergency and food aid</i> )	OECD DAC international statistics database
C	Total PGBS disbursements	Country government and donor sources
D	SAF, ESAF and PRGF disbursements	OECD DAC international statistics database, IMF and country government sources
E	Total other unearmarked programme aid	Country government and donor sources
F	HIPC funding	Country government and donor sources
G	Central government expenditure (USD)	IMF International Financial Statistics (IFS) data for central government expenditure appear to be understated or are unavailable in some cases and country data have been used where available
Ga	ODA as % of GNI	OECD DAC international statistics database
H	PGBS as % of total ODA	Row C / Row A
I	PGBS as % of central government expenditure	Row C / Row G
J	Emergency Aid	OECD DAC international statistics database
K	Development Food Aid	OECD DAC international statistics database
L	Central government expenditure (national currency)	IMF IFS data for central government expenditure appear to be understated or are unavailable in some cases and country data have been used where available
M	Exchange rate	IMF IFS, Oanda.com (foreign currency exchange information provider – <a href="http://www.oanda.com">www.oanda.com</a> ) or country data have been used
General		Reference to Annexes – refer to Joint Evaluation of General Budget Support County Report Annexes

*Comments on Data*

2. For the purposes of the Country Reports, country level data were used for PGBS disbursements as such data were only available at that level. However, a comparison of PGBS amounts across countries was desired, and therefore this dataset has been compiled. However, it is recognised that these data are very approximate. Elements of approximation include:

- a. use of both calendar and fiscal years
- b. exchange rates may affect amounts shown
- c. known tendency for OECD DAC figures to exceed aid reported as received by country governments. (Reasons for this include (i) the fact that OECD definition includes: aid to NGOs etc. in-country, aid in kind e.g. TA and other aid where expenditure is undertaken directly by the donor, and (ii) even where aid is provided to the government it may be off-budget and therefore not captured in government figures.)

3. In addition there are varying degrees of data quality across countries and across time within countries. Therefore, as stated previously, the data should be treated as an approximation.



## Annex C: Synthesis of Country Report Ratings

### Introduction

1. A set of over-arching key Evaluation Questions (Box C1) provides an organising framework for the country evaluation and a structure for the country reports.<sup>2</sup>

#### Box C1: Key Evaluation Questions

1. How does the evolving Partnership GBS (PGBS) design respond to the specific conditions, strengths and weaknesses of the country, to government priorities and to the priorities and principles of the international partners?
2. Has PGBS contributed to greater harmonisation and alignment of the aid process?
3. How efficient, effective and sustainable has been the contribution of PGBS to the performance of the public expenditure process?
4. How efficient, effective and sustainable has been the contribution of PGBS to improving government ownership, planning and management capacity, and accountability of the budgetary process?
5. How efficient, effective and sustainable has been the contribution of PGBS to improving public policy processes and policies?
6. How efficient, effective and sustainable has been the contribution of PGBS to macroeconomic performance?
7. How efficient, effective and sustainable has been the contribution of PGBS to improving government performance in public service delivery?
8. How far has PGBS strengthened government impact on poverty?
9. Is the PGBS process itself sustainable?

2. Under each main evaluation question, a series of sub-questions (evaluation criteria) are posed. To facilitate comparisons and consistency across the countries studied, symbols are used to give approximate ratings for the general situation and for the influence PGBS is judged to have had.

### Key to Ratings and Symbols

3. The key to the ratings and symbols is as follows:

- (a) Where the logic of the (implicit) question requires it – i.e. in relation to the Key Evaluation Questions 2–8,<sup>3</sup> the ratings distinguish between the general situation to which the question refers and the influence of PGBS upon it. For the general situation, the rating is expressed as a *level* and a *trend*.
- (b) PGBS influence is expressed in two ratings:
  - For *effect*. This assesses the difference that PGBS makes to the general situation.
  - For *efficiency*. It is perfectly possible that PGBS will be found to have a weak or null effect not because PGBS is inherently ineffective, but because it is relatively small ("a drop in a bucket") vis-à-vis the general situation. "Efficiency" therefore assesses whether PGBS has a significant effect

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<sup>2</sup> See Inception Report Annex K for the full matrix of key Evaluation Questions, including judgement criteria, evidence, data sources, counterfactuals. The final *Note on Approach and Methods* will note minor amendments and assess the experience of using the Enhanced Evaluation Framework.

<sup>3</sup> The Evaluation Criteria for Evaluation Questions 1 and 9 refer directly to PGBS itself, so there is no separate "general effect" to consider.

relative to the resources deployed via PGBS. (Roughly, has PGBS been a "value for money" way of pursuing this effect?)

(c) For both general situation and PGBS influence, a separate *confidence* rating is given.

(d) The same symbols are used against "level", "effect", "efficiency" and "confidence" ratings, as follows:

***	<i>strong/high</i>
**	<i>medium/moderate</i>
*	<i>low/weak</i>
null	<i>the level/effect is either zero or negligible</i>
nf [not found]	<i>we found no clear evidence either way</i>
na	<i>rating is Not Applicable to this question</i>

(e) The "trend" is the trend at the end of the evaluation period, and the options are:

+	<i>increasing/improving</i>
=	<i>stable (or no discernible trend)</i>
-	<i>declining/worsening</i>
na	<i>not applicable if the accompanying level is rated null / not found / not applicable</i>

(f) In the few cases where perverse effects are identified (a negative effect when the question implies a positive one is expected), this is shown as "perverse" (and is always highlighted in the text explanation).

(g) As a rough guide to confidence ratings:

***	strong/high confidence: <i>We're sure what evidence is needed to answer this question, and the evidence we have appears robust and conclusive (so we would be surprised if more evidence changed the rating).</i>
**	medium/moderate confidence <i>There is some uncertainty whether the evidence we have is both robust and sufficient; more evidence might lead to a somewhat different rating.</i>
*	low/weak confidence: <i>There is uncertainty about what evidence is relevant to the question, and/or the evidence we have is limited or unreliable.</i>

(h) The ratings for "general situation" and "PGBS influence" may be based on different (though overlapping) sets of evidence; it is perfectly possible that confidence levels will differ, so they are rated separately.

(i) As a rough guide to ratings for effect

***	strong effect: <i>PGBS has made a definite and very significant difference to the general situation; it is not necessarily the only factor which has made such a difference, but it is an important one.</i>
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**	moderate effect: <i>PGBS has made a definite and moderately significant difference to the general situation; but it may be a subsidiary factor, or one amongst a considerable number of significant factors.</i>
*	low/weak effect: <i>PGBS has made only a small difference to the general situation.</i>
null	<i>PGBS is assessed to have made no difference, or only a negligible difference, to the general situation.</i>
nf [not found]	<i>We did not find clear evidence either way of a PGBS effect.</i>
na	<i>The implied question is Not Applicable in this case.</i>

(j) As a rough guide to ratings for efficiency:

***	highly efficient <i>PGBS exerts a strong influence towards the effect in question, in proportion to the resources embodied in PGBS.</i>
**	moderately efficient <i>PGBS exerts a moderate influence towards the effect in question, in proportion to the resources embodied in PGBS.</i>
*	low efficiency <i>PGBS exerts only a weak influence towards the effect in question, in proportion to the resources embodied in PGBS.</i>
null	<i>PGBS is assessed to have exerted no influence, or only a negligible influence, towards the effect in question.</i>
nf [not found]	<i>We did not find clear evidence either way of a PGBS influence.</i>
na	<i>The implied question is Not Applicable in this case.</i>

4. The evidence used to assess ratings is explained in the text of the individual Country Reports, and it follows general guidelines in Annexes G and K of the Inception Report (IDD & Associates 2005). The ratings have been checked for broad consistency across the country studies.

5. The study team recognises the limitations of the ratings system. However, it is neither possible nor desirable to reduce qualitative issues entirely to quantitative judgements. The ratings are only an adjunct to the text.

**Key the Comparative Summary Table**

6. This Annex displays the seven country responses to each of the questions for which a rating is required. The following abbreviations are used:

L	Level
T	Trend
C	Confidence
gL	General Level
gT	General Trend
gC	General Confidence
pEt	PGBS Effect
pEy	PGBS Efficiency
pC	PGBS Confidence

7. The "totals" are arrived at by adding up country scores within each EQ, as follows:

<b>rating</b>	<b>value</b>
***	3
**	2
*	1
null, nf, na	0
perverse	-1

8. Again, this is arbitrary (and no weighting is attempted), but it helps to give a general impression of the responses to each EQ (the maximum possible score for each EQ is also shown; this depends simply on the number of sub-questions that there happen to be). No meaning could be attached to the aggregation of ratings across EQs.

## Synthesis of Ratings from the Country Reports

**EQ1: How does the evolving PGBS design respond to the specific conditions, strengths and weaknesses of the country, to government priorities and to the priorities and principles of the international partners?**

<b>B1. The Relevance of Partnership GBS</b>		<b>BF</b>	<b>Mal</b>	<b>Moz</b>	<b>Nic</b>	<b>Rwa</b>	<b>Uga</b>	<b>VN</b>	<b>Comment</b>
<b>Relevance to the context:</b> The extent to which the strengths and weaknesses of the financial, economic, social, political and institutional context are taken into account in the evolving PGBS design.	L	**	*	**	**	**	**	***	High rating for Vietnam reflects realism in the design about the potential scope of PGBS influence; low rating for Malawi reflects high political risks.
	T	+	+	+	=	=	=	+	
	C	***	***	***	***	***	***	***	
<b>Dialogue, conditionality and ownership:</b> The extent to which PGBS policy dialogue and conditionalities are consistent with high levels of ownership by government and sensitivity to country constraints.	L	***	*	**	**	**	**	**	Ownership notably weak in Malawi. Burkina Faso build on "new conditionality" pilot.
	T	+	=	+	=	=	=	+	
	C	**	***	**	**	***	***	**	
<b>Poverty orientation:</b> The extent to which the PGBS design reflects objectives and strategies related to all the dimensions of poverty reduction.	L	**	*	**	*	**	***	***	PGBS strongly reflects PRSPs as to whether all dimensions (income, services, empowerment) are addressed. Positive trends in most cases reflect trend to broaden focus of second generation PRSPs.
	T	+	=	+	+	+	+	+	
	C	***	**	***	**	***	***	***	
<b>Coherence and consistency of the design:</b> Coherence and consistency of the PGBS design, taking into account the extent to which the different partners (various IPs and Government) show differences in expectations and approaches related to PGBS or some of its components.	L	**	**	***	*	**	**	**	In Mozambique, PGBS originated from need to improve coherence among donors. Generally, still many different perspectives on PGBS among donors, and between different parts of government. This is very evident in formative stages of Nicaragua PGBS.
	T	+	=	=	+	=	=	+	
	C	***	**	***	***	***	**	***	
<b>Response to previous weaknesses in aid management:</b> The extent to which the PGBS design responds to analyses of previous weaknesses in aid management systems and processes.	L	***	*	***	**	***	***	***	Previous weaknesses in aid management were very evident in all cases; low ratings for Malawi and Nicaragua reflect evaluators' doubts about quality of response.
	T	+	+	=	+	+	=	=	
	C	***	***	**	**	***	***	***	
<b>"Total"</b>	L	<b>12</b>	<b>6</b>	<b>12</b>	<b>8</b>	<b>11</b>	<b>12</b>	<b>13</b>	<b>In all cases PGBS was judged a relevant response. Malawi and Nicaragua are outliers, reflecting, in particular, significantly more difficult political contexts.</b>
<i>maximum total = 15</i>									

**EQ2: Has PGBS contributed to greater harmonisation and alignment of the aid process?**

<b>B2. Effects of PGBS on Harmonisation and Alignment</b>		<b>BF</b>	<b>Mal</b>	<b>Moz</b>	<b>Nic</b>	<b>Rwa</b>	<b>Uga</b>	<b>VN</b>	<b>Comment</b>
<p><b>Policy Alignment:</b> The extent to which PGBS has contributed to increased IP alignment with government policies at national and sectoral levels through: (a) aligning aid objectives and conditions with government objectives and targets</p>	gL	**	**	**	*	**	**	**	<p>Ratings for policy alignment of aid in general take account of whether national policy documents are operationalised and therefore demanding to align with. Positive trend in all cases (any other finding would be alarming in view of PRSPs, Paris Declaration etc.).</p> <p>PGBS generally judged both efficient and effective in strengthening policy alignment; little effect as yet in Malawi and Nicaragua.</p>
	gT	+	+	+	+	+	+	+	
	gC	**	**	**	***	***	***	***	
	pEt	**	*	***	*	**	***	***	
	pEy	***	**	***	**	**	***	***	
	pC	***	**	***	***	***	***	***	
<p><b>Government leadership:</b> (b) increasingly relying on government aid coordination, analytic work, TA management</p>	gL	*	*	*	*	**	**	*	<p>Government leadership in aid management generally weak, with Uganda and Rwanda governments notably more proactive. Government leadership in joint analysis, TA management is rare.</p> <p>Ratings for Uganda, Rwanda, Mozambique and Burkina Faso reflect the broader scope of donor–government collaboration that has been established in these countries.</p>
	gT	+	=	+	+	+	+	=	
	gC	**	***	**	***	**	**	***	
	pEt	**	null	**	*	**	**	null	
	pEy	**	null	***	**	***	***	*	
	pC	**	***	***	***	**	**	***	
<p><b>Alignment with Government systems:</b> <i>Government planning and budget cycles</i> The extent to which PGBS has contributed to increased IP alignment with government systems at national and sectoral levels through: (a) aligning fund commitment and disbursement with government planning and budget cycles</p>	gL	*	*	*	*	*	**	*	<p>Background level of international partner alignment with government systems is judged weak in all cases (contrast with policy alignment which is less demanding).</p> <p>Significant positive effects in all cases where PGBS has become established.</p>
	gT	+	+	+	+	+	+	=	
	gC	***	***	***	***	***	**	***	
	pEt	**	*	**	*	**	**	**	
	pEy	***	**	***	**	**	**	**	
	pC	***	**	***	***	***	***	***	

*Annex C: Synthesis of Country Report Ratings*

<b>B2. Effects of PGBS on Harmonisation and Alignment</b>		<b>BF</b>	<b>Mal</b>	<b>Moz</b>	<b>Nic</b>	<b>Rwa</b>	<b>Uga</b>	<b>VN</b>	<b>Comment</b>
<i>Government implementation systems</i> (b) increasingly relying on government cash management, procurement, implementation, monitoring, reporting and auditing.	gL	*	*	*	*	**	**	*	Background level of international partner reliance on government systems is weak in most cases; less so in Uganda and Rwanda.
	gT	+	+	+	+	+	+	+	
	gC	***	**	***	***	***	***	***	
	pEt	**	*	***	*	***	***	**	By definition PGBS is disbursed through government systems (hence efficient), but extent of effect depends on scale of PGBS and whether it displaces off-budget approaches.
	pEy	***	**	***	**	***	***	**	
	pC	***	**	***	***	***	***	***	
<b>Harmonisation among donors and modalities:</b> The extent to which PGBS has contributed to improving overall coordination and complementarities of IPs' programmes.	gL	*	**	**	**	**	**	*	Background of positive trend in international partner harmonisation in all cases, but still much scope for improvement.
	gT	+	+	+	+	+	+	+	
	gC	**	***	***	***	***	***	***	
	pEt	***	**	**	**	**	***	**	Even the less complete/successful PGBS operations (Malawi, Nicaragua) have had positive effects on harmonisation.
	pEy	**	***	***	***	***	***	**	
	pC	***	**	***	***	***	***	***	
The extent to which there have been specific complementarities between PGBS and other forms of aid.	gL	*	*	**	*	**	**	*	Varying degrees of complementarity with other aid modalities, tending to be stronger in sectors with developed SWAps.
	gT	+	+	+	+	+	+	=	
	gC	**	**	***	***	**	**	***	
	pEt	**	**	**	*	***	**	**	
	pEy	**	**	***	*	**	***	**	
	pC	***	**	***	***	**	**	**	
<b>"Total" gL</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>7</b>	<b>11</b>	<b>12</b>	<b>7</b>	<b>At this level, very definite effects are apparent in most cases (unsurprisingly, more limited to date in Malawi and Nicaragua). As well as the H&amp;A that is built into donors' cooperation in GBS and its intrinsic use of government systems, there are usually indirect effects on H&amp;A of other modalities. For example, PGBS, and its associated dialogue and review structures, can complement and enhance existing sector mechanisms, often providing forums and instruments for addressing cross-sector issues.</b>	
<b>"Total" pEt</b>	<b>13</b>	<b>7</b>	<b>14</b>	<b>7</b>	<b>14</b>	<b>15</b>	<b>11</b>		
<b>"Total" pEy</b>	<b>15</b>	<b>11</b>	<b>18</b>	<b>12</b>	<b>15</b>	<b>17</b>	<b>12</b>		
<i>maximum total = 18</i>									

**EQ3: How efficient, effective and sustainable has been the contribution of PGBS to the performance of public expenditures?**

<b>B3. Effects of PGBS on Public Expenditures</b>		<b>BF</b>	<b>Mal</b>	<b>Moz</b>	<b>Nic</b>	<b>Rwa</b>	<b>Uga</b>	<b>VN</b>	<b>Comment</b>
<b>Influence on expenditure allocation:</b> The influence of PGBS funds on the levels and shares of pro-poor expenditures.	gL	**	**	***	**	**	***	**	Confidence in judgements on pro-poor expenditures is limited by weaknesses in concept and definition of PPEs (see main report for discussion).
	gT	+	+	=	+	+	=	+	
	gC	**	***	**	**	**	**	**	
	pEt	**	*	**	*	**	***	**	Influence is most pervasive in Uganda, least in Malawi and Nicaragua.
	pEy	**	*	***	**	**	***	**	
	pC	**	**	**	**	**	**	**	
<b>Discretionary expenditure:</b> The extent to which the PGBS funds have contributed to the increase in the proportion of external funds subject to the national budget	gL	*	*	*	**	*	**	*	Background judgement is that incorporation of external funds in the budget is generally weak; partial exceptions are Nicaragua (ex post channelling of funds through a Single Treasury Account) and Uganda (where PGBS has helped to bring sector and local government aid on-budget).
	gT	=	=	+	+	=	=	=	
	gC	**	***	**	***	**	**	***	
	pEt	**	null	**	*	**	***	***	Null efficiency rating for Malawi reflects that, so far, PGBS has been a re-badging, not a net increase in unearmarked budget support; elsewhere (except Nicaragua) PGBS has had significant effect in bringing more aid under the discretion of the national budget process.
	pEy	***	null	***	**	***	***	***	
	pC	**	***	***	***	***	***	***	
<b>Predictability:</b> The extent to which the scheduling and delivery of PGBS funds have contributed to the overall predictability of aid flows and public expenditures.	gL	**	*	**	**	*	**	**	Predictability of aid flows is a concern everywhere, but has many dimensions (see discussion in main report).
	gT	=	+	+	-	=	+	=	
	gC	***	***	**	**	*	***	**	
	pEt	**	<i>perv- erse</i>	**	<i>perv- erse</i>	**	*	**	Stop-go experiences in Malawi and Nicaragua have exacerbated unpredictability. Several countries have experienced problems with short-term predictability of PGBS disbursements; the different dimensions to the issue are discussed in CRs and in the main Synthesis Report.
	pEy	**	na	**	na	**	*	**	
	pC	***	***	**	**	**	***	**	

*Annex C: Synthesis of Country Report Ratings*

<b>B3. Effects of PGBS on Public Expenditures</b>		<b>BF</b>	<b>Mal</b>	<b>Moz</b>	<b>Nic</b>	<b>Rwa</b>	<b>Uga</b>	<b>VN</b>	<b>Comment</b>
<b>Efficiency of expenditure:</b> The extent to which the scheduling and delivery of PGBS funds have contributed to the overall efficiency of public expenditures and aid flows.	gL	**	*	*	*	*	**	**	Background allocative efficiency of budgeting, in particular, is judged stronger in BF, Uganda, Vietnam.
	gT	=	+	+	+	=	=	+	
	gC	**	**	**	**	**	***	**	
	pEt	**	*	**	null	**	**	**	Again, positive effects in the countries where PGBS has become established. The various dimensions of allocative and operational efficiency are reviewed in the CRs.
	pEy	**	*	**	*	**	***	***	
	pC	**	**	**	**	**	***	**	
<b>Transaction costs:</b> The influence of PGBS on the transaction costs of the budget process and utilising aid. <i>NB * (weak) for gL means high t-costs.</i>	gL	*	*	*	*	*	**	*	The overall transaction costs of utilising aid are judged to be high everywhere; exception is Uganda, where PGBS has helped to bring sector and LG aid fully on-budget, thus reducing additional costs of donor procurement etc.
	gT	+	=	=	=	+	=	=	
	gC	***	***	**	**	*	**	**	
	pEt	**	*	**	*	**	**	**	Efficiency of PGBS in reducing transaction costs gets positive ratings, as, even where effects on costs at negotiation stage are ambiguous, there is a clear reduction in costs to government during programme implementation. Effect depends on volume of PGBS and counterfactual.
	pEy	**	***	**	**	**	***	***	
	pC	***	***	**	**	*	**	**	
<i>maximum total = 15</i>	"Total" gL	<b>8</b>	<b>6</b>	<b>8</b>	<b>8</b>	<b>6</b>	<b>11</b>	<b>8</b>	<b>gL ratings imply, credibly, that Uganda's management of public expenditures and aid has been significantly more sophisticated than elsewhere. On effects, Malawi and Nicaragua again the clear outliers (to be expected since neither has yet experienced a consistent flow of PGBS).</b>
	"Total" pEt	<b>10</b>	<b>2</b>	<b>10</b>	<b>2</b>	<b>10</b>	<b>11</b>	<b>11</b>	
	"Total" pEy	<b>11</b>	<b>5</b>	<b>12</b>	<b>7</b>	<b>11</b>	<b>13</b>	<b>13</b>	

**EQ4: How efficient, effective and sustainable has been the contribution of PGBS to improving government ownership, planning and management capacity, and accountability of the budgetary process?**

<b>B4. Effects of PGBS on Planning and Budgeting Systems</b>		<b>BF</b>	<b>Mal</b>	<b>Moz</b>	<b>Nic</b>	<b>Rwa</b>	<b>Uga</b>	<b>VN</b>	<b>Comment</b>
<p><b>Ownership:</b> The extent to which an increase in predictable and discretionary resources has helped to increase ownership of the budget process and commitment to improved budgeting.</p>	gL	**	*	*	*	**	***	**	Government commitment to improved budgeting is strongest in Uganda. Mozambique is interesting as having high volume of PGBS, against background of relatively weaker ownership of budget reform.
	gT	+	+	+	+	+	=	=	
	gC	***	***	***	*	**	***	**	
	pEt	***	null	**	*	***	**	*	Where PGBS has increased discretionary resources, effects on ownership of, and commitment to, improved budget process are positive. Effect rating for Vietnam reflects smaller relative volume of PGBS; for Uganda reflects fact that commitment to better budgeting preceded PGBS.
	pEy	**	na	***	*	***	***	**	
	pC	***	**	**	*	***	***	**	
<p><b>Accountability:</b> The extent to which the increased use of government systems and processes helped to improve the accountability of public expenditures.</p>	gL	*	*	*	*	*	**	*	Overall accountability of public expenditure (fiduciary and democratic) is assessed as weak (moderate in Uganda).
	gT	+	+	+	+	+	=	+	
	gC	**	***	**	***	**	**	**	
	pEt	**	*	**	null	**	**	**	Where PGBS has increased the resources within government systems and processes, there are benefits in expanding the scope of domestic accountability although most domestic accountability systems remain weak.
	pEy	*	*	***	**	**	**	**	
	pC	**	**	**	***	***	**	**	



*Annex C: Synthesis of Country Report Ratings*

<b>B4. Effects of PGBS on Planning and Budgeting Systems</b>		<b>BF</b>	<b>Mal</b>	<b>Moz</b>	<b>Nic</b>	<b>Rwa</b>	<b>Uga</b>	<b>VN</b>	<b>Comment</b>
<b>Durability:</b> The extent to which PGBS supports government in internalising such improvements (ensuring the sustainability of the whole process).	gL	**	*	*	null	**	**	*	Background (gL) ratings reflect varying degrees of government commitment to PBS reform process.
	gT	+	=	+	=	+	=	=	
	gC	**	***	**	***	**	**	**	
	pEt	**	*	*	null	**	**	**	Where there is a coherent PBS strategy, PGBS has provided positive systemic support.
	pEy	**	*	**	**	**	***	**	
	pC	**	**	**	***	**	***	**	
<b>Capacity Development:</b> The extent to which PGBS is supporting capacity development in PFM.	gL	*	**	*	*	**	**	**	Background ratings reflect tendency for PFM TA to have fallen short of aspirations.
	gT	+	+	=	-	+	+	+	
	gC	***	***	**	***	**	***	***	
	pEt	***	*	*	null	***	**	**	Relatively low ratings for efficiency reflect tendency for systemic effects of PGBS to predominate, while coordination with PFM-focused TA has been rather ad hoc.
	pEy	**	*	*	*	**	**	**	
	pC	***	**	**	***	**	***	***	
<i>maximum total = 12</i>	<b>"Total" gL</b>	<b>6</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>7</b>	<b>9</b>	<b>6</b>	<b>Striking contrast between Uganda and Mozambique in background ratings.</b> <b>Clear evidence that PGBS can be efficient and effective in strengthening planning and budgetary system.</b>
	<b>"Total" pEt</b>	<b>10</b>	<b>3</b>	<b>6</b>	<b>1</b>	<b>10</b>	<b>8</b>	<b>7</b>	
	<b>"Total" pEy</b>	<b>7</b>	<b>3</b>	<b>9</b>	<b>6</b>	<b>9</b>	<b>10</b>	<b>8</b>	

**EQ5: How efficient, effective and sustainable has been the contribution of PGBS to improving public policy processes and policies?**

<b>B5. Effects of PGBS on Policies and Policy Processes</b>		<b>BF</b>	<b>Mal</b>	<b>Moz</b>	<b>Nic</b>	<b>Rwa</b>	<b>Uga</b>	<b>VN</b>	<b>Comment</b>
<b>Influence on Reform Process</b> <i>Ownership and effectiveness</i> The extent to which PGBS (allowing for the time lags of its operations) has helped (is helping) to establish/maintain a comprehensive, coherent and effective pro-poor reform process, owned by the government...	gL	**	*	*	*	**	**	***	Background ratings are an assessment of the quality and government leadership of the national reform process.
	gT	+	=	+	+	+	=	+	
	gC	*	***	**	**	**	**	***	
	pEt	**	*	**	*	**	**	***	Low ratings for Malawi and Nicaragua reflect design challenges related to lack of a consistent and credible national reform strategy for PGBS to support.
	pEy	***	*	***	**	***	***	***	
	pC	***	***	***	**	**	***	***	
<i>Participation</i> ...in which, an appropriate range of stakeholders is involved in policy formulation and review	gL	*	**	*	**	**	**	*	Interestingly, there is not a straightforward correlation between apparent levels of participation and the quality of the reform process. (see above).
	gT	+	+	+	+	+	=	=	
	gC	*	***	**	***	**	**	**	
	pEt	**	*	**	*	*	**	**	PGBS has had some effects in broadening/deepening stakeholder involvement.
	pEy	**	*	***	*	**	***	*	
	pC	**	**	**	***	**	***	**	
<i>Learning</i> ...in which, policy processes encourage both government and IPs to learn from experience and adapt policies to country circumstances	gL	**	**	**	*	*	**	*	Vietnam, Rwanda, Nicaragua seem to be the countries where international partners less able to engage in the dialogue (in Vietnam and Rwanda because of government's attitude to sovereignty; in Nicaragua also because of political fissures and instability).
	gT	+	+	+	+	=	=	=	
	gC	***	***	**	**	**	***	***	
	pEt	**	*	***	*	**	**	*	PGBS aid is less important in Vietnam, so makes less of a difference than in the other four countries with established PGBS systems,
	pEy	***	*	***	*	**	***	*	
	pC	***	**	**	**	**	***	***	

*Annex C: Synthesis of Country Report Ratings*

<b>B5. Effects of PGBS on Policies and Policy Processes</b>		<b>BF</b>	<b>Mal</b>	<b>Moz</b>	<b>Nic</b>	<b>Rwa</b>	<b>Uga</b>	<b>VN</b>	<b>Comment</b>
<b>Influence on Policy Content</b> <i>Public and private sectors</i> ...in which, policies address major market failures, the regulatory environment and the appropriate balance between public and private sectors	gL	*	*	*	**	*	*	*	Low background ratings reflect tendencies for government policies (embodied in PRSPs) to focus more on government service delivery.
	gT	+	=	=	+	+	+	=	
	gC	**	***	**	**	**	**	**	
	pEt	*	null	*	*	*	*	**	So far, mostly modest influence of PGBS on private/public sector policies.
	pEy	*	null	*	**	*	**	*	
	pC	**	**	**	***	**	**	**	
<i>Sector policies</i> ...in which, appropriate sector policies complement public expenditures	gL	*	*	**	*	**	**	*	Background assessment (inevitably crude) is of extent to which sector policies and public expenditures are correlated with each other.
	gT	+	+	=	+	+	+	=	
	gC	*	**	***	*	***	**	**	
	pEt	**	*	**	null	**	**	*	High ratings for Uganda (and Mozambique) reflect good interaction between PGBS and sector coordination arrangements.
	pEy	**	*	***	*	**	***	*	
	pC	**	**	**	*	**	***	**	
<i>maximum total = 15</i>	<b>"Total" gL</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>7</b>	<b>Strong correlation between overall PGBS efficiency assessment and the degree of PGBS penetration (duration, relative importance, and sophistication of dialogue arrangements).</b>
	<b>"Total" pEt</b>	<b>9</b>	<b>4</b>	<b>10</b>	<b>4</b>	<b>8</b>	<b>9</b>	<b>9</b>	
	<b>"Total" pEy</b>	<b>11</b>	<b>4</b>	<b>13</b>	<b>7</b>	<b>10</b>	<b>14</b>	<b>7</b>	

**EQ6: How efficient, effective and sustainable has been the contribution of PGBS to macroeconomic performance?**

B6. Effects of PGBS on Macroeconomic Performance		BF	Mal	Moz	Nic	Rwa	Uga	VN	Comment
<b>Macroeconomic effects</b> <i>Fiscal discipline and macroeconomic stability</i> The extent to which PGBS has contributed to fiscal discipline and macroeconomic stability	gL	***	*	*	**	**	***	***	Uganda, Vietnam and Burkina Faso all had fiscal discipline and macroeconomic stability well established before PGBS began.
	gT	=	+	+	+	=	=	=	
	gC	***	***	***	***	***	***	***	
	pEt	na	<i>perverse</i>	**	null	*	na	na	Efficiency ratings indicate that PGBS can be an efficient support to a government that is committed to macro stability and fiscal discipline. Contrast effect ratings: Malawi and Nicaragua, discipline not maintained; Burkina Faso, Uganda, Vietnam, discipline independent of PGBS.
	pEy	**	null	**	*	**	***	**	
	pC	**	***	**	***	**	**	**	
<i>Cost of budget finance</i> The extent to which PGBS funding has reduced the cost of budget financing.	gL	**	*	*	**	*	**	*	"Perverse" effect ratings because of costs of borrowing to compensate for short-term unpredictability of PGBS disbursements (Rwanda), or domestic borrowing costs of sterilisation (Uganda). Otherwise, grants and soft loans an economical source of finance.
	gT	=	+	+	+	=	-	-	
	gC	***	***	***	***	*	***	**	
	pEt	**	*	**	null	<i>perverse</i>	<i>perverse</i>	***	
	pEy	***	***	***	**	na	na	***	
	pC	***	**	***	***	*	***	**	

*Annex C: Synthesis of Country Report Ratings*

<b>B6. Effects of PGBS on Macroeconomic Performance</b>		<b>BF</b>	<b>Mal</b>	<b>Moz</b>	<b>Nic</b>	<b>Rwa</b>	<b>Uga</b>	<b>VN</b>	<b>Comment</b>
<i>Private investment</i> The extent to which PGBS funding of public expenditures has adversely affected private investment.	gL	**	null	*	*	null	**	null	Little direct evidence of "crowding out" of private investment through the funding of public expenditures, but see the discussion in the main report.
	gT	=	+	+	=	=	+	=	
	gC	**	**	**	**	**	***	*	
	pEt	null	<i>perv- erse</i>	nf	null	*	**	null	
	pEy	null	null	na	**	*	**	**	
	pC	**	**	**	**	**	*	**	
<i>Domestic revenue</i> The extent to which PGBS funding of public expenditure has adversely affected domestic revenue collection. <i>NB. for gL *** denotes strong revenue performance.</i>	gL	**	***	**	**	**	*	***	Varying levels of revenue effort across countries, but no clear evidence of simple adverse relationship between PGBS funding and domestic revenue effort; see discussion in the main report.
	gT	+	+	=	+	+	+	+	
	gC	***	***	***	**	**	***	***	
	pEt	nf	null	nf	null	nf	nf	nf	
	pEy	na	null	na	na	na	na	na	
	pC	*	**	**	***	**	*	**	
<b>Facilitating institutional change</b> The extent to which such improvement has been stable over the years and has allowed changes in institutional behaviour (private sector investment, central bank decisions, etc.).	gL	***	null	**	*	*	***	**	Uganda, Burkina Faso and Vietnam have the most sustained records of macroeconomic stability, but in all cases there are also other significant sources of uncertainty facing decision makers.
	gT	=	=	+	+	+	=	=	
	gC	***	**	**	**	**	**	**	
	pEt	*	null	**	null	*	*	*	
	pEy	*	null	***	null	*	**	**	
	pC	**	**	**	**	*	*	**	
<b>maximum total = 15</b>	<b>"Total" gL</b>	<b>12</b>	<b>5</b>	<b>7</b>	<b>8</b>	<b>6</b>	<b>11</b>	<b>9</b>	<b>In general we consider that macroeconomic issues and their interactions with GBS (as discussed in the respective CRs and the SR) are too complex to be usefully characterised in a very simple rating system.</b>
	<b>"Total" pEt</b>	<b>3</b>	<b>-1</b>	<b>6</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>4</b>	
	<b>"Total" pEy</b>	<b>6</b>	<b>3</b>	<b>8</b>	<b>5</b>	<b>4</b>	<b>7</b>	<b>9</b>	

**EQ7: How efficient, effective and sustainable has been the contribution of PGBS to improving government performance in public service delivery?**

<b>B7. Effects of PGBS on Delivery of Public Services</b>		<b>BF</b>	<b>Mal</b>	<b>Moz</b>	<b>Nic</b>	<b>Rwa</b>	<b>Uga</b>	<b>VN</b>	<b>Comment</b>
<b>Pro-poor public service delivery</b> The extent to which PGBS has contributed to increasing the efficiency and effectiveness of pro-poor public service delivery and improving the access of poor people.	gL	*	*	*	*	**	**	**	Rwanda, Uganda and Vietnam are judged to have relatively stronger track records of pro-poor service delivery.
	gT	+	+	+	+	+	+	+	
	gC	***	**	***	**	***	**	**	
	pEt	**	null	*	na	**	**	**	Ratings for Malawi and Nicaragua reflect the fact that PGBS was not successfully established during the evaluation period.
	pEy	***	null	*	na	**	***	***	
	pC	**	**	**	**	**	**	**	
<b>Capacity and responsiveness of service delivery institutions</b> The extent to which PGBS has contributed towards developing the sustainable capacity of service delivery institutions.	gL	*	*	*	**	*	*	*	Wide capacity problems in basic service delivery.
	gT	=	=	+	=	=	=	=	
	gC	**	**	**	**	**	**	*	
	pEt	*	null	*	na	*	*	*	Ratings for Malawi and Nicaragua reflect the fact that PGBS was not successfully established during the evaluation period.
	pEy	*	null	**	na	*	*	*	
	pC	**	**	**	***	**	**	*	
The extent to which PGBS has contributed towards service delivery institutions becoming more responsive to beneficiaries.	gL	*	*	*	*	*	*	**	Low general levels of responsiveness in service delivery.
	gT	+	=	+	=	=	+	=	
	gC	**	**	**	**	**	**	**	
	pEt	**	nf	*	nf	*	*	**	Vietnam ratings reflect PRSC's particular focus in this area. Ratings for Malawi and Nicaragua reflect the fact that PGBS was not successfully established during the evaluation period.
	pEy	**	null	*	nf	*	*	***	
	pC	**	**	**	**	**	**	**	
<b>maximum total = 9</b>	<b>"Total" gL</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>5</b>	<b>General picture is that quantitative improvements (access for more poor people) are easier to achieve than qualitative improvements. Underlying factors (e.g. the significance of longer timescales for qualitative change, and whether PGBS has characteristic weaknesses or strengths in addressing such issues) are discussed in the reports.</b>
	<b>"Total" pEt</b>	<b>5</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>4</b>	<b>4</b>	<b>5</b>	
	<b>"Total" pEy</b>	<b>6</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>4</b>	<b>5</b>	<b>7</b>	

Annex C: Synthesis of Country Report Ratings

**EQ8: How far has PGBS strengthened government impact on poverty?**

<b>B8. Effects of PGBS on Poverty Reduction</b>		<b>BF</b>	<b>Mal</b>	<b>Moz</b>	<b>Nic</b>	<b>Rwa</b>	<b>Uga</b>	<b>VN</b>	<b>Comment</b>
The extent to which PGBS (allowing for the time lags of its operations) has strengthened — or is strengthening — the impact of government on the different dimensions of poverty reduction, including: <b>Basic services for the poor</b> (a) the use of health, education and other basic services by poor groups.	gL	*	*	**	*	**	**	***	Background ratings relate to the general performance of Government as regards basic services for the poor.
	gT	+	=	+	+	+	+	+	
	gC	**	**	**	**	**	**	***	
	pEt	**	nf	*	nf	**	**	**	No discernible effect for PGBS in Malawi or Nicaragua. Effect rating in Mozambique reflects continuing major role for sector and project aid.
	pEy	**	null	**	**	**	**	**	
	pC	**	**	**	**	**	**	***	
<b>Income poverty</b> (b) the improvement of the macroeconomic environment leading to increased incomes and economic opportunities for the poor.	gL	*	*	**	***	*	**	***	Background ratings reflect differential income poverty performance.
	gT	+	=	+	+	=	=	+	
	gC	***	*	***	***	**	**	***	
	pEt	**	nf	*	nf	*	*	**	No effect likely at this stage in Malawi and Nicaragua; only modest influence on income poverty elsewhere.
	pEy	**	null	**	**	*	**	**	
	pC	**	**	*	**	**	**	**	
<b>Empowerment</b> (c) the empowerment of poor people because of improvements in the accountability of government, greater participation in processes of decision making, or improvements in the administration of justice.	gL	*	*	*	*	*	*	*	Background ratings reflect generally low levels of empowerment of the poor.
	gT	+	+	+	+	+	=	+	
	gC	**	**	**	**	*	**	**	
	pEt	*	nf	*	nf	*	*	*	No effect likely at this stage in Malawi or Nicaragua. Weak effects elsewhere, but efficiency ratings indicate that PGBS has advantages as a way of addressing empowerment issues.
	pEy	*	null	**	*	**	**	**	
	pC	**	**	**	*	**	**	**	
<b>"Total" gL</b>		<b>3</b>	<b>3</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>5</b>	<b>7</b>	<b>Negligible effects in Malawi, Nicaragua; moderate effects elsewhere are based more on service delivery than income poverty or empowerment.</b>
<b>"Total" pEt</b>		<b>5</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>4</b>	<b>4</b>	<b>5</b>	
<b>"Total" pEy</b>		<b>5</b>	<b>0</b>	<b>6</b>	<b>5</b>	<b>5</b>	<b>6</b>	<b>6</b>	
<i>maximum total = 9</i>									

**EQ9: Is the PGBS process itself sustainable?**

<b>B9. Sustainability of PGBS</b>		<b>BF</b>	<b>Mal</b>	<b>Moz</b>	<b>Nic</b>	<b>Rwa</b>	<b>Uga</b>	<b>VN</b>	<b>Comment</b>
<b>Shared learning between government and donors</b> The extent to which PGBS allows a shared learning process between Government and IPs with flexible mechanisms for adjusting to experience (including adjustment to maximise the complementarities amongst different forms of aid).	L	***	*	***	null	**	**	**	Promising systems for shared learning in the five countries where PGBS has become established...
	T	+	=	=	+	+	+	=	
	C	***	**	***	**	***	***	***	
<b>Comprehensive and effective review and adjustment</b> The extent to which such a process encompasses all the three main flows of PGBS (funds, institutions and policies) with adjustments related to actual results at all stages in the chains of causality (from quality of inputs to overall poverty impact).	L	**	*	***	null	**	**	*	.. but significant differences in systems' ability to focus on adjustments at all stages...
	T	+	+	+	=	+	+	+	
	C	**	*	***	**	***	**	**	
<b>Feedback to stakeholders</b> The extent to which the process provides appropriate and timely feedback to all stakeholders so as to ensure the continuity and durability of PGBS.	L	**	*	**	null	*	**	**	..and feedback to stakeholders is nowhere rated strong.
	T	+	=	+	+	+	+	+	
	C	***	*	***	**	**	***	***	
<b>"Total" L</b>		<b>7</b>	<b>3</b>	<b>8</b>	<b>0</b>	<b>5</b>	<b>6</b>	<b>5</b>	<b>Ratings imply that processes in Burkina Faso and Mozambique are somewhat more securely established than in the other main PGBS recipients.</b>
<i>maximum total = 9</i>									



## **Annex D: Public Finance Management Assessments**

### **Introduction**

1. Budget support is always accompanied by a focus on public finance management (PFM). Donors considering disbursing through partner government systems have a special interest in the government's fiduciary standards. Moreover, one of the principal claims for budget support is that using government PFM systems can itself make a special contribution towards strengthening them. Hence PFM diagnostic reports (PERs, CFAAs, CPARs, ROSCs etc.)<sup>4</sup> have been undertaken frequently, as well as donor-specific fiduciary analyses (although other factors have also contributed to this raising of interest in PFM).

2. The scope for collaboration and harmonisation in PFM analysis and PFM capacity development has been increasingly recognised. The second volume of DAC guidelines on Harmonising Donor Practices for Effective Aid Delivery (OECD DAC 2005d) includes a chapter on capacity development for PFM. A PFM performance measurement framework has been developed under the auspices of the multi-agency PEFA (Public Expenditure and Financial Accountability) programme (PEFA Secretariat 2005). In six of the seven GBS study countries, the donor demand for tracking of HIPC relief funding was pivotal, with Assessments and Action Plans (AAPs) as path-breakers; Vietnam, not in the HIPC group, is an exception.

3. Given the fundamental importance of the quality of PFM systems and reforms in PGBS countries, each of the country teams for this evaluation has undertaken a comprehensive synthesis of the available analysis and diagnosis, making reference to both the HIPC AAP studies and work undertaken within the PEFA framework and methodology. This Annex provides a concise synthesis of PFM assessments from the Country Reports, derived from Annex 4 of each Country Report, and presented in Table D1 below. Our main assessment is of the current state of PFM, although we also examine developments during the evaluation period and offer a judgement as to whether different elements of countries' PFM systems are improving. Our analysis draws as much as possible from both the PEFA performance indicator system and available AAPs.

4. We stress that the present Annex is not the primary source on which the synthesis report's PFM-related conclusions depend. The synthesis report's findings and conclusions draw on those of the country reports. Our country-level conclusions, in turn, are not based simply on the estimated ratings, but on the careful review of evidence that is presented in Annex 4 of each country report, and in the relevant sections of the reports themselves. They are based on an extensive review of available literature, augmented by interviews with current participants in, and observers of, those countries' PFM systems.

### **Public Expenditure and Financial Accountability (PEFA)**

5. A set of 28 high-level performance indicators has been developed by PEFA, as a basis for assessing improvements in PFM performance over time. Three further indicators assess aspects of donor performance. PEFA has developed a detailed scoring methodology (fully described in PEFA Secretariat 2005), in which the assessment for each high-level indicator is based on a number of specified components.

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<sup>4</sup> Public Expenditure Reviews, Country Financial Accountability Assessments, Country Procurement Assessment Reviews (all World Bank led) and Reports on the Observance of Standards and Codes (IMF, linked to its transparency guidelines).

6. It is beyond the scope of this study to undertake a full PEFA-based analysis (and in any case the PEFA scoring system was not finalised until June 2005). However, in the interests of standardisation and comparability, the PFM analysis of the PGBS study has been oriented towards the PEFA indicator framework as far as possible. We have used a standard matrix to consider PFM issues against the principal dimensions defined by PEFA, drawing on the secondary sources available (these are listed at the end of this Annex).<sup>5</sup>

7. We do not attempt a rigorous scoring against the specific calibration prescribed by PEFA, but express our judgement as *good*, *moderate* or *weak* on the basis of available data. Where insufficient information was available, no such judgement is offered. In the future, rigorous assessment and reporting according to the PEFA guidelines should provide a much more robust and transparent basis for assessing the quality of PFM systems than was available during the evaluation period. It will also allow progress in capacity development to be more systematically monitored.

8. The PEFA performance measurement framework identifies the critical dimensions of performance of an open and orderly PFM system as follows:

1. **Credibility of the budget** – The budget is realistic and is implemented as intended.
2. **Comprehensiveness and transparency** – The budget and the fiscal risk oversight are comprehensive, and fiscal and budget information is accessible to the public.
3. **Policy-based budgeting** – The budget is prepared with due regard to government policy.
4. **Predictability and control in budget execution** – The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.
5. **Accounting, recording and reporting** – Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes.
6. **External scrutiny and audit** – Arrangements for scrutiny of public finances and follow up by the executive are operating.

### **Heavily Indebted Poor Countries – Assessment and Action Plan**

9. This matrix also shows the HIPC AAP (Assessment and Action Plan) indicators and diagnostic results (although these do not apply in the case of Vietnam<sup>6</sup>). The AAP studies report on progress in tracking public spending in the context of the enhanced debt relief initiative and on the status of action plans agreed with country authorities to strengthen their public expenditure management systems.

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<sup>5</sup> Full PEFA analyses for Uganda and Mozambique were conducted during 2005. Our Uganda analysis was informed by the draft PEFA assessment in progress, but the Mozambique assessment was not available until after our Mozambique country report was substantially complete. We understand that, in general, its ratings are somewhat more favourable than previous assessments.

<sup>6</sup> Scores shown for Vietnam against the AAP indicators are estimates by the country evaluation team.

10. The scale for the HIPC AAP indicators ranges from: A (strong) to B (moderate) and C (weak). The 2001 HIPC AAP assessments were carried out using 15 indicators; a 16<sup>th</sup> indicator, on procurement, was added for the 2004 assessments, to give the following set:

1	Composition of the budget entity.	9	Quality of internal audit Effective internal audit function
2	Limitations to use of off-budget transactions.	10	Use of expenditure tracking surveys
3	Reliability of budget as guide to out-turn.	11	Quality of fiscal/banking data reconciliation
4	Data on donor financing.	12	Timeliness of internal budget reports
5	Classification of budget transactions. Functional and/or program information provided	13	Classification used for tracking poverty-reducing expenditures
6	Identification of poverty-reducing expenditure	14	Timeliness of accounts closure
7	Quality of multiyear expenditure projections	15	Timeliness of final audited accounts
8	Level of payment arrears	16	Effective procurement

### Synthesis Table

11. In Table D1, the AAP indicators (identified by the numbers above) have been grouped alongside similar PEFA-type indicators under the broad headings used by the PEFA system. In cases where indicators have been left blank there was insufficient information available to qualify a judgement.

### Trend Ratings

12. In order to assess trends in PFM performance we have qualified a trend by making use of three symbols, namely (-) negative, (=) stable or (+) positive. In the case of the PEFA indicators, country teams have made trend assessments based on existing studies and findings of country experience. In cases where there was insufficient information available, the trend has been left as a blank. However, these findings are especially tentative, since the 2001 ratings are themselves estimates by the team; they follow the broad PEFA categories but are not based on rigorous application of the PEFA calibration.

13. In cases where full information for 2001 and 2004 was not available for the AAP indicators, the country teams have followed a similar methodology to that used for the PEFA trends indicator – they have made an assessment based on existing studies and findings on those indicators. In cases where insufficient information is available the trend has been left blank. In some cases, for both PEFA ratings and for AAP ratings, the score recorded is the same for each year but a trend is noted – in these cases the identified trend reflects a trend change within a rating. In a few cases, later AAP ratings identified apparent errors in earlier AAP ratings and this may affect the trend recorded.

### Tentative Observations

14. The Country Report annexes provide detailed commentary on each individual country. Some additional observations based on this synthesis:

- **Data caveats:**
  - The trend towards developing standard and consolidated assessments is welcome. However, both the PEFA indicators (even when applied to full PEFA

specifications) and the AAP ratings should be approached with caution. Inevitably, there is a degree of approximation, both in the choice of component indicators and in the judgments applied to them. (This was illustrated by the subsequent corrections to some 2001 AAP indicators, mentioned above.)

- Because of their focus on PFM management systems rather than fiscal and expenditure policy, the PEFA indicators do not directly measure allocative and operational efficiency, the aspects of performance that might be most affected if PGBS has the effects hypothesised.
- Table D1 crudely compares the study countries against each other, but we have not conducted the wider comparison that would be necessary to show whether these PGBS-recipients are systematically different in PFM characteristics from other countries not in our sample.
- AAP reports routinely comment on whether the number of "satisfactory" ratings for a country has risen or fallen. However, there is no obvious basis for weighting different elements of the ratings against each other in order to assess whether one country's overall PFM system is better than another's, or whether its system overall has improved or deteriorated when different indicators move in different directions

- **Tentative observations (countries):**

Given the qualifications above, cross-country comparisons based on the ratings alone are just impressionistic. They are more likely to be reliable within particular broad categories (e.g. credibility of the budget, policy-based budgeting, external scrutiny and audit) than at aggregate level.

Differences in coverage, even within this sample, make direct comparisons between study countries tenuous, but the following overall observations are consistent with other aspects of country findings:

- Both Malawi (where PGBS has faltered) and Mozambique (where it is rated an overall success) appear to be at the weak end of the spectrum.
- Ratings for policy-based budgeting are mostly weak (with Uganda as an unsurprising exception, while Rwanda, Burkina Faso and Vietnam rate stronger than Malawi and Nicaragua; but again Mozambique seems weaker than the other main PGBS recipients).
- Nicaragua demonstrates that a relatively strong showing on credibility of the budget process can co-exist with a weak rating on policy-based budgeting. This fits the Country Report analysis of some technical strengths but systemic weaknesses in the fragmentation of government.

- **Tentative observations (general):**

- The ratings suggest that revenue systems in this sample are somewhat stronger than expenditure systems. If this finding is robust, it would be interesting to explore the reasons for it.
- The dominant *trend* is positive. This may reflect a bias towards introducing PGBS where the trend is positive, an observer bias towards positive trends (given that a lot of PFM capacity development efforts are visibly under way) and/or the positive effects of PFM-related interventions (including PGBS in the study countries).

15. Finally, it is worth observing that the crude *good/moderate/weak* ratings we have used (the full PEFA scoring range has more gradations) inevitably make it harder to register improvements (or deterioration) in performance. In any case, achieving substantial (durable

and non-superficial) improvements in broad PFM systems is known to be a difficult, and lengthy, process.

**Table D1: Estimates of PFM Performance across the Study Countries**

No.	Subject	Year	BF	MAL	MOZ	NIC [1]	RWA	UGA	VN [2]
<b>A. PFM OUT-TURNS: Credibility of the Budget</b>									
PI-1	Aggregate expenditure out-turn compared to original approved budget	2001		Weak				Good	
		2004		Weak	Moderate	Moderate		Good	Good
		Trend	+	=	=	+		=	=
PI-2	Composition of expenditure out-turn compared to original approved budget	2001		Weak				Moderate	
		2004		Weak	Weak	Moderate	Moderate	Moderate	Moderate
		Trend	=	-	+			=	=
3	<i>Reliability of budget as guide to outturn (Level and composition of outturn is "quite close" to budget)</i>	2001	B	C	B		B	B	
		2004	B	C	B	Moderate	B	B	Good
		Trend	=	=	+	+	=	=	=
PI-3	Aggregate revenue out-turn compared to original approved budget	2001		Moderate				Good	
		2004		Good	Moderate	Good	Good	Good	Good
		Trend	+	+	+	+	+	=	=
PI-4	Stock and monitoring of expenditure payment arrears	2001		Weak				Weak	
		2004		Weak	Moderate/Good	Moderate	Weak	Weak	Weak
		Trend	+	+	=	=	-	=	=
8	<i>Level of payment arrears (Very few or no arrears accumulated)</i>	2001	B	A	A		B	B	
		2004	A	B	A	Moderate	C	C	
		Trend	+	-	+	=	-	-	
<b>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>									
PI-5	Classification of the budget	2001		Weak				Weak	
		2004		Weak	Moderate	Moderate	Good	Moderate	Moderate
		Trend	=	=	+	+	Good	+	+
5	<i>Classification of budget transactions (Functional and/or program information provided)</i>	2001	B	A	C		A	A	
		2004	B	B	B	Weak	B	B	
		Trend	=	-	+	=		-	
PI-6	Comprehensiveness of information included in budget documentation	2001		Weak				Moderate	
		2004		Weak	Weak	Weak	Moderate	Moderate	Moderate
		Trend	=	=	+	+	+	=	+
1	<i>Composition of the budget entity (Very close fit to government finance statistics (GFS) definition of general government)</i>	2001	B	C	A		B	B	
		2004	B	C	B	Weak	B	B	
		Trend	=	=		=	+	=	
PI-7	Extent of unreported government operations	2001		Weak				Weak	
		2004		Weak		Moderate	Moderate	Moderate	Weak
		Trend	=	=		+		+	+
2	<i>Limitations to use of off-budget transactions (Extra (or off) budget expenditure is not significant)</i>	2001	A	A	C		A	B	
		2004	A	A	C		B	B	
		Trend	=	=	+			=	
PI-8	Transparency of inter-governmental fiscal relations	2001		Weak				Weak	
		2004		Weak		Moderate		Moderate	Moderate
		Trend		?		+		+	+
PI-9	Oversight of aggregate fiscal risk from other public sector entities	2001		Weak				Weak	
		2004		Weak	Weak	Good		Weak	Weak
		Trend	=	=	+	+		=	
PI-10	Public access to key fiscal information	2001		Weak				Moderate	
		2004	Weak	Weak	Weak	Moderate	Weak	Moderate	Moderate
		Trend		=	+	+	+	=	+

*continued...*

Table D1: PFM Performance (...continued...)

No.	Subject	Year	BF	MAL	MOZ	NIC [1]	RWA	UGA	VN [2]
<b>C. BUDGET CYCLE</b>									
<b>C(i) Policy-Based Budgeting</b>									
6	<i>Identification of poverty-reducing expenditure (Identified through use of classification system)</i>	2001	A	A	C		A	A	
		2004	B	A	C	Weak	A	A	Moderate
		Trend	-	=	+	+	+	=	
PI-11	Orderliness and participation in the annual budget process	2001		Weak				Moderate	
		2004	Moderate	Weak	Weak	Weak	Good	Moderate	Weak
		Trend	=	+	+	+		=	+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	2001		Weak				Moderate	
		2004		Weak	Weak	Weak	Moderate	Moderate	Moderate
		Trend	=	=	+	=		=	+
7	<i>Quality of multiyear expenditure projections (Projections are integrated into budget formulation)</i>	2001	A	B	B		A	A	
		2004	A	B	B		A	A	
		Trend	=	=	=		=	=	
<b>C(ii) Predictability and Control in Budget Execution</b>									
PI-13	Transparency of taxpayer obligations and liabilities	2001		Moderate				Moderate	
		2004		Moderate		Weak		Moderate	
		Trend	+	+		+		=	
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	2001						Weak	
		2004				Weak		Weak	
		Trend	=			+		=	
PI-15	Effectiveness in collection of tax payments	2001						Weak	
		2004				Weak		Weak	Good
		Trend	=		=	+		=	=
PI-16	Predictability in the availability of funds for commitment of expenditures	2001		Weak				Weak	
		2004	Moderate	Weak	Weak	Moderate/Weak	Weak	Moderate	Good
		Trend	=	=	=	=		+	+
PI-17	Recording and management of cash balances, debt and guarantees	2001		Weak				Weak	
		2004		Weak	Weak			Moderate	Moderate
		Trend	=	+	+			+	+
PI-18	Effectiveness of payroll controls	2001						Weak	
		2004	Weak			Moderate/Weak?		Weak	Moderate
		Trend	+	+				=	=
PI-19	Competition, value for money and controls in procurement	2001		Weak				Weak	
		2004		Weak	Weak	Weak	Moderate	Moderate	Weak
		Trend		+		Weak	Moderate	Moderate	Weak
16	<i>Effective procurement (Procurement processes promote competition, transparency and value-for-money)</i>	2001							
		2004	B	B	C	Weak	B	B	
		Trend		(new)		=			
PI-20	Effectiveness of internal controls for non-salary expenditure	2001		Weak				Weak	
		2004	Moderate	Weak	Weak	Weak	Moderate to Weak	Weak	Moderate
		Trend	=	=	+	= ??			=
PI-21	Effectiveness of internal audit	2001		Weak				Weak	
		2004		Weak	Weak	Weak	Moderate	Weak	Weak
		Trend	=	+	+	= ??		=	+
9	<i>Quality of internal audit (Effective internal audit function)</i>	2001	B	B	B		B	B	
		2004	B	B	A	Weak	B	B	
		Trend	=	+		= ??	=	=	

continued...

Table D1: PFM Performance (...concluded)

No.	Subject	Year	BF	MAL	MOZ	NIC [1]	RWA	UGA	VN [2]
<b>C(iii) Accounting, Recording and Reporting</b>									
PI-22	Timeliness and regularity of accounts reconciliation	2001		Weak				Moderate	
		2004		Weak	Weak	Moderate	Very weak	Moderate	Moderate
		Trend	=	+	+	+		+	+
11	Quality of fiscal/banking data reconciliation (Satisfactory and timely reconciliation of fiscal and monetary data)	2001	A	B	C		C	B	
		2004	A	B	B	Moderate	C	A	
		Trend	=	+		+	=	+	
PI-23	Availability of information on resources received by service delivery units	2001		Weak				Moderate	
		2004		Weak	Weak	Weak		Moderate	Weak
		Trend	=	+	+	=			+
10	Use of expenditure tracking surveys (Tracking used on regular basis)	2001	A	A	C		B	B	
		2004	A	B	C	Moderate?	B	B	
		Trend	=	+	=	= ??	=	=	
PI-24	Quality and timeliness of in-year budget reports	2001		Weak				Weak	
		2004		Weak	Weak	Weak	Moderate	Weak	Moderate
		Trend	=	+	+	= ??		=	+
12	Timeliness of internal budget reports (Monthly expenditure reports provided within four weeks of end of month)	2001	A	B	C		B	B	
		2004	A	B	B	Weak	B	C	
		Trend	=	+		= ??	=	-	
13	Classification used for tracking poverty-reducing expenditures (Good quality, timely functional reporting derived from classification system)	2001	C	A	B		B	A	
		2004	B	B	B	Good	B	A	
		Trend	+	+	+	+	=	=	
PI-25	Quality and timeliness of annual financial statements	2001		Weak				Good	
		2004		Weak			Very weak	Good	Moderate
		Trend	+	+				+	+
14	Timeliness of accounts closure (Accounts closed within two months of year-end)	2001	B	B	A		A	B	
		2004	A	B	B		A	A	
		Trend	+	+			=	+	
<b>C(iv) External Scrutiny and Audit</b>									
PI-26	Scope, nature and follow-up of external audit	2001		Weak				Weak	
		2004		Weak	Weak		Good	Moderate	Weak
		Trend	=	+	+			+	+
15	Timeliness of final audited accounts (Audited accounts presented to legislature within one year)	2001	C	C	C		C	B	
		2004	C	C	C		B	B	
		Trend	=	+			+	+	
PI-27	Legislative scrutiny of the annual budget law	2001		Weak				Weak	
		2004	Moderate	Weak	Moderate			Moderate	Weak
		Trend	=	+	=			+	+
PI-28	Legislative scrutiny of external audit reports	2001		Weak				Weak	
		2004	Weak	Weak	Moderate		Moderate	Weak	
		Trend	+	+	=			=	
<b>D. DONOR PRACTICES</b>									
D-1	Predictability of Direct Budget Support	2001						Weak	
		2004		weak		Moderate		Weak	Moderate
		Trend				= ??		+	+
D-2	Financial information provided by donors for budgeting and reporting on project and programme aid	2001						Weak	
		2004			Weak	Moderate	Weak	Weak	Weak
		Trend	=		+	+		+	=
4	Data on donor financing (Donor-funded expenditures included in budget or reports)	2001	C	B	B		B	A	
		2004	C	B	B		B	B	
		Trend	=	=	+		=	-	
D-3	Proportion of aid that is managed by use of national procedures	2001						Moderate	
		2004			Weak	Weak	Weak	Moderate	Weak
		Trend			+	+	+	=	+

**Notes:**

[1] The actual AAP ratings for Nicaragua do not appear to have been published, although assessment reports for 2001 and 2004 are available. The scores for these indicators are the country report evaluation team judgement.

[2] Vietnam is not in the HIPC group and therefore does not have a AAP. The scores for these indicators are the country report evaluation team judgement.

## References

PEFA Secretariat (2005). *Public Financial Management: Performance Measurement Framework*. (June 2005) Washington, DC: World Bank.

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World Bank and IMF (2005a). *Update on the Assessments and Implementation of Action Plans to Strengthen Capacity of HIPC Countries to Track Poverty-Reducing Public Spending*. (April 2005) Washington, DC: World Bank and IMF.

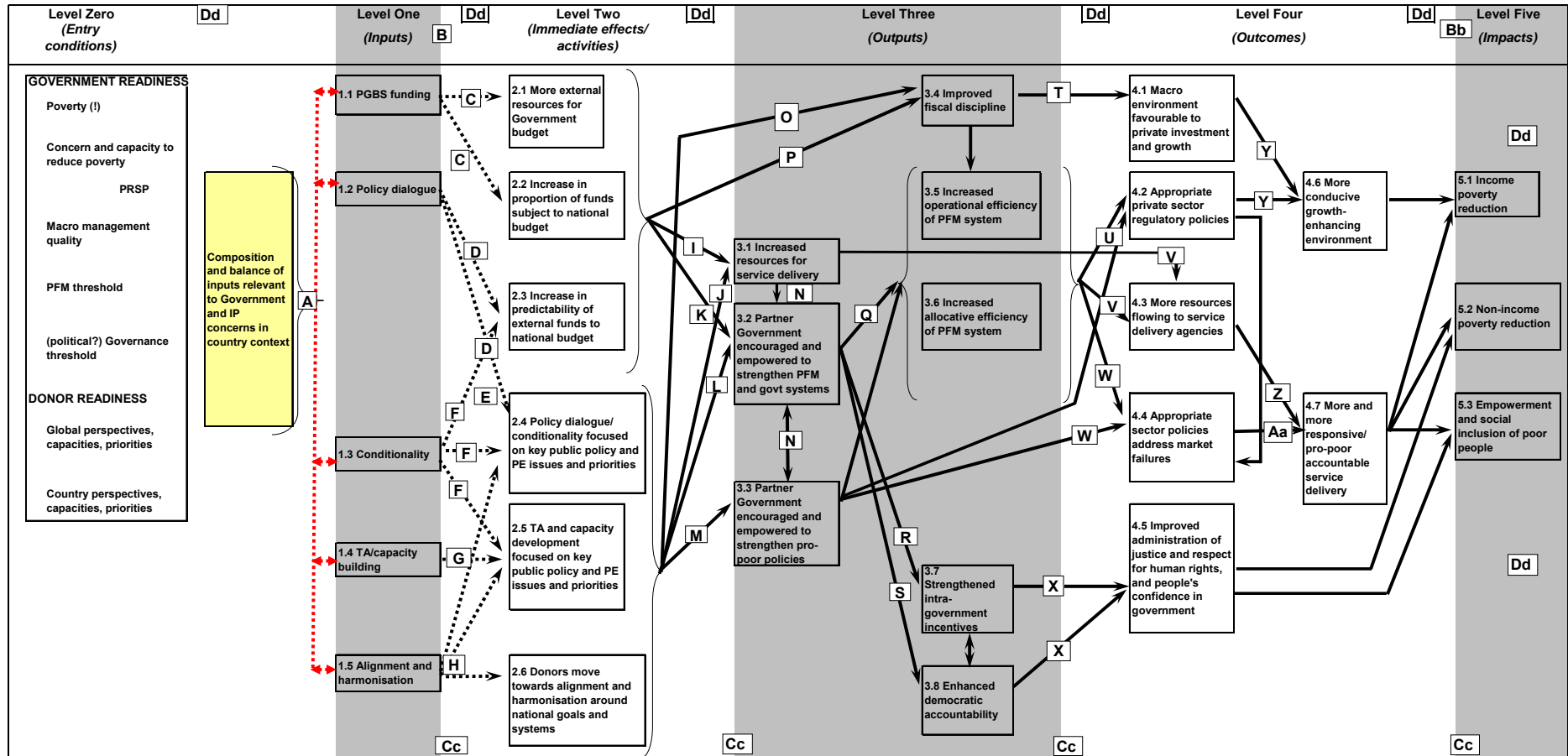
Country Teams also referred to the individual country AAP reports. See Annex 4 of each Country Report for a detailed PFM assessment explaining the country findings summarised here.



## **Annex E: Synthesis of Causality Findings**

1. This Annex provides a synthesis of causality findings from the Country Reports, derived from the ex post Causality Maps (Annex 5 in each Country Report). The primary purpose of the ex post Causality Map is to record which causality links have been found to work for PGBS during the evaluation period.
2. The letter keys on the version of the Causality Map overleaf are to facilitate cross-referencing to the table which follows.

KEY TO THE CAUSALITY MAP



**Causality Map: Summary of Findings on Causality**

Note: references – [B1] etc – are to chapters of the respective country reports where fuller evidence is presented.

A	Level 0 → Level 1 <i>The design and its relevance.</i>
	Burkina Faso: Relevant design, stemming from “pilot on new conditionality” (late 1990s). Has evolved well over time: second PGBS Memorandum of Understanding (Framework for Budget Support to the Poverty Reduction Support Paper (PRSP) – 2005) involving all PGBS international partners, leadership more clearly with government, greater internal consistency and coherence (e.g. joint performance assessment matrix). Design reflecting strengths and weaknesses of PRSP, hence weak on income poverty reduction. [B1]
	Malawi: Essentially a relevant design and one that improves over the period. But key question is whether the potential benefits of PGBS in Malawi warranted the risks given the poor history of earlier general budget support operations and the unpromising political context. [B1]
	Mozambique: Relevant design, which has evolved particularly in response to government demands for greater predictability of international partner commitment. Design included all programme aid and, while the heart is PGBS, dialogue has increasingly become inclusive, particularly of sector support. Initial analysis recognised weakness of government capacity and accountability but did not develop adequate associated support particularly on capacity. [B1]
	Nicaragua: Design gradually more relevant to country policy but still affected by not adopting appropriate corrective measures for high political and institutional risk and by heavy use of conditionality in an old style. All inputs are present. Significant flow of funds started only in 2004. Policy dialogue was in place before the other inputs, as continuation of HIPC dialogue. Technical assistance clearly associated but mostly used to pay government staff in positions relevant to PGBS. PGBS is used along with other aid modalities but not necessarily in a complementary way. [B1]
	Rwanda: Relevant design (esp. balance funding/institutional support); weakness with regard to political context (for bilateral international partners) and (to a lesser extent) financial context. Emerging stress between recently introduced Poverty Reduction Support Credit (PRSC) approach and other international partners’ broader assessment approach. Policy dialogue, harmonisation and alignment, and, in particular, technical assistance inputs somewhat merged in broader processes involving all international partners. [B1]
	Uganda: Relevant design, which has evolved over time. Initial weakness in analysis of political context has led to recent difficulties in engaging and responding to political issues, and a lower degree of political ownership. All international partners explicitly treat PGBS as complementary to other modalities. All inputs present, but technical assistance/capacity building (TA/CB) the least integrated of them. [B1]
	Vietnam: Design is highly relevant with a strong poverty emphasis and government ownership which has evolved over time. Weakness is in the tight PRSC cycle which limits scope for ongoing dialogue and consultation. All inputs are present, although TA/CB is undertaken through complementary projects and programmes. [B1]
	<i>Synthesis: Rarely a single initial design, and always evolving over time. Finance input straightforward, non-financial inputs less discrete/less well-specified (especially TA/CB). Previous success stories in partnership, on more specific (sectors) and/or limited areas (test in Burkina Faso) seem to facilitate the design and start of PGBS. Complementarities with other aid modalities (particularly sector budget support) are present in the most sensitive designs (Mozambique, Uganda). In several cases, initial analysis/reflection of political and institutional context was weak and was a factor in later difficulties in the relationship between international partners and government.</i>

<b>B</b>	<b>Level 1 → Level 2</b> <i>Overview of inputs to immediate effects</i>
	Burkina Faso: Significant effect from Level 1 to Level 2 although mostly for PGBS international partners and less for others. PGBS focusing effect (e.g. of policy dialogue) has been facilitated by HIPC, PRSP, pilot of new conditionality and vice-versa i.e. PGBS has reinforced these.
	Malawi: Weak to moderate links from Level 1 to Level 2. These links are stronger for the PGBS group of donors than for non-PGBS donors. Some of the Level 2 impacts would have happened without PGBS. Strongest effects are on harmonisation though other pressures on harmonisation matter.
	Mozambique: Significant effects from all inputs except that there has not been a distinct PGBS approach to TA/CB. There are associated TA/CB projects given on a fragmented project basis to various directorates of the Ministry of Planning and Finance. A pool to support the technical reform unit of PFM systems represents the most sizeable pooling mechanism for TA/CB to strengthen PFM across government. But overall support for TA/CB lacks the comprehensiveness appropriate to PGBS.
	Nicaragua: Main effects in terms of policy dialogue and alignment with the support provided to the President Bolaños (2003–04) and the adoption of the National Development Plan as reference point with the PGBS donor group in 2005. Flow of funds limited and late in evaluation period. Technical assistance just started but since the beginning focused on key PFM and sector issues. Donor harmonisation, started with HIPC and the Social Supplementary Fund, was formalised in 2005 with inclusion of the different international partners under the same PGBS Joint Financing Arrangement umbrella. Only the Inter-American Development Bank and the IMF participating in HIPC/Social Supplementary Fund do not participate directly in the Joint Financing Arrangement. [B1, B2]
	Rwanda: Link from level 1 to Level 2 present. Significant flow-of-funds effect of PGBS. Effect of other PGBS inputs commingled with, and significantly reinforcing, inputs from other international partners and aid modalities within government-led PRSP dialogue.
	Uganda: Significant effects from Level 1 to Level 2 for all inputs (TA/CB the least distinct); important wider effects in changing the environment within which other aid modalities operate.
	Vietnam: Direct effects from Level 1 to Level 2 with strong effects from policy dialogue, conditionality and harmonisation and alignment. Moderate effects for PGBS funding and effects from TA/CB. Strong aid coordination effect. [B1, B2, B3]
	<i>Synthesis: Significant effect in all countries where sizeable PGBS has been flowing. Differences with respect to which input(s) is/are seen as most influential. In several cases there is also a clear wider effect on the environment for other aid modalities.</i>
<b>C</b>	<b>1.1 → 2.1/2.2</b> <i>PGBS effect on total external resources for budget and the proportion of funds subject to the national budget.</i>
	Burkina Faso: Links are moderately strong. PGBS increasing but project aid remains dominant form of official aid. PGBS is a moderate proportion of government budget. [B3]
	Malawi: Effect is weak because amount of PGBS funds does not represent additional resources compared with past general budget support when other non-earmarked funds were provided. Had PGBS continued as planned without suspension there might have been an additionality effect. [B1, B3]
	Mozambique: PGBS has become a sizeable share of official aid and has contributed significant funding to the government budget, but overall official aid has not increased and is falling in real terms. [A3, B1, B3]
	Nicaragua: No major effects on total external aid since PGBS is more in substitution of project aid. Though PGBS represents between 11% and 15% of total official aid (government data) and 100% of loans and 80% of grants are registered in the single treasury account, only about 20% of official aid is fungible with government domestic resources. [B1, B3]
	Rwanda: Strong effect of PGBS in increasing external resources for the budget (impossible to channel such volume through projects). Effect on bringing resources on budget limited to PGBS programmes/international partners. Moderate as PGBS has become significant share of official aid. [A3, B3]

Annex E: Synthesis of Causality Findings

Uganda: Both links are strong. PGBS has become a major share of official aid and a large proportion of government budget, thus instrumental in a large increase in the share of donor funds on budget. [B1, B3]	
Vietnam: Moderate effect on total external resources and a strong effect on the proportion of funds subject to the national budget. PGBS has never been greater than 1.8% of the government budget, but represents around 10% of aid flows. [B3]	
<i>Synthesis: Even when PGBS funds are small relative to total official aid and total government budgets, amounts involved are not trivial. A range of cases in terms of whether PGBS has brought additional (fungible) funds on budget, and/or is primarily a substitute for project aid or a continuation of previous programme aid.</i>	
<b>D</b>	<b>1.2/1.3 → 2.3</b> <i>Effects of dialogue and conditionality on predictability of external funding to the budget.</i>
Burkina Faso: PGBS more predictable (and higher disbursement rate) than “on budget” project aid. But effects of policy dialogue and conditionality on predictability are not strong yet. Short-term horizon of donors’ commitments. Within-year scheduling yet to be improved (with implementation of the Framework for Budget Support to the PRSP). [B2, B3]	
Malawi: The combination of PGBS conditionality and government fiscal indiscipline led to a worsening of predictability, especially in the short term although arguably in the long term the suspension was inevitable. Post-2004 short-term predictability may improve but this remains to be tested. [B3]	
Mozambique: Initially PGBS disbursement suffered from low predictability (contributing to the government appeal which led to the development of a more concrete Memorandum of Understanding). Dialogue and mechanisms for accountability of donors on their own performance, in conjunction with Memorandum of Understanding, have led to much improved levels of predictability. [B1]	
Nicaragua: Though flow of funds increased substantially, its predictability has so far not been achieved since the assessment of key principles of partnership delayed disbursement and reduced its amount. [B3]	
Rwanda: PGBS more predictable and higher disbursement rate compared to projects. Significant lack of predictability and timeliness within-year for varied (technical, political and administrative) reasons on government’s and international partners’ sides. Medium/long-term predictability not explicitly improved: international partners’ commitments still mostly short-term/ fixed in time (except DFID 10-year Memorandum of Understanding including GBS share). [B3]	
Uganda: PGBS started off less predictable than other modalities, but is now more so, with a higher disbursement rate. Durable dialogue structure has enabled government to plan ahead despite short time horizon of donors’ formal commitments.	
Vietnam: PGBS has a higher disbursement rate than other aid modalities and is more predictable. There is some variation in donors’ disbursement within the budget year and most donors only make annual commitments. [B3]	
<i>Synthesis: Improved predictability cannot be taken for granted. Where basic principles/conditions are not satisfied, shortfalls or fluctuations in disbursements may be amplified. Administrative and technical problems can lead to short-term volatility even when the underlying relationship between international partners and government is harmonious. Established dialogue arrangements (Mozambique, Uganda) have enabled governments to plan with some confidence, even where formal commitments are short-term (though some donors now make longer-term undertakings).</i>	

<b>E</b>	<b>1.2 → 2.4</b> <i>Increased focus of dialogue on key public policy and expenditure issues.</i>
	Burkina Faso: Strong link, facilitated by pre-PGBS focusing effect of pilot on new conditionality, HIPC, PRSP. But effect limited to PGBS (and like-minded) donors. Some weaknesses in PRSP dialogue architecture also weaken PGBS effect. [B2]
	Malawi: Main effect has been through donor harmonisation of policy dialogue although pro-poor expenditure and PFM issues were key issues of previous general budget support as well. [B1, B2]
	Mozambique: PGBS dialogue was always focused on public expenditure issues, particularly in the context of pro-poor allocations, but since 2003 it has been more strongly focused on assessing the impact of expenditure. Dialogue (Joint Review and working groups) and Performance Assessment Framework evaluation have supported sectoral and cross-sectoral pro-poor priorities. Hitherto relatively neglected sectors (private sector development, legal and judicial reform) are receiving more attention. [B1, B2]
	Nicaragua: Dialogue on key policy and expenditure issues was already high in the context of HIPC and of the PRGF. PGBS is framing it in the context of the National Development Plan and of national mechanisms for sector policy coordination, and enlarging the dialogue to other donors and ministries outside the Ministry of Finance. [B1, B2]
	Rwanda: Dialogue focused but not driven by PGBS; facilitated by government-owned poverty reduction strategy, government-led aid management structures, and (unevenly strong) sector processes. PGBS supports these processes but the small number of PGBS international partners may be a limit to its proactiveness. [B2]
	Uganda: Strong link, enhancing sector dialogue mechanisms, and helping to create cross-sector dialogue, facilitated by pre-existing poverty reduction strategy (Poverty Eradication Action Plan) and Medium Term Expenditure Framework processes. [B1, B2] Dialogue has also helped focus TA/CB interventions on these areas; however, insufficient attention paid to the implications for local governments.
	Vietnam: Policy dialogue is strongly focused on public policy and public expenditure issues. This is reinforced by the policy matrix and complementary TA/CB. [B1, B3]
	<i>Synthesis: Importance of pre-PGBS/simultaneous frameworks focusing attention on public expenditure/policy issues e.g. HIPC in all HIPC countries. PGBS can complement/ enhance existing sector mechanisms, providing forums/instruments for addressing cross-sector issues. PGBS as a modality is unique in directly and broadly supporting national poverty reduction strategies. PGBS dialogue focused mainly on basic public services, but increasingly examples of extension to private sector and income generation issues (Mozambique, Uganda) and bringing issues of quality and equity into focus. PGBS dialogue may enhance and increase the consistency of ongoing dialogue and partnership on key public policies. It may still be too general and it is extremely demanding to promote and build such dialogue/partnership from zero.</i>
<b>F</b>	<b>1.3 → 2.3/2.4/2.5</b> <i>Influence of conditionality on predictability of funding, on focus of dialogue, and on TA/CB.</i>
	Burkina Faso: Conditionality led to delayed PGBS disbursements (Poverty Reduction and Growth Facility-associated and EC variable tranche performance-based conditionality). Areas of focus in conditionality framework support and influence priority agenda (PFM conditions drawn from government Programme for Strengthening Budget Management; but “redressing” PRSC health financing condition). TA/CB (for PFM and sector reforms) was provided before PGBS.
	Malawi: Conditionality worsened predictability given government performance. Moderate link from conditionality to TA/CB for PFM issues and pro-poor expenditures. [B3]

*Annex E: Synthesis of Causality Findings*

Mozambique: Implicit political conditions initially created uncertainty. The 2004 Memorandum of Understanding spelt out the fundamental principles of the relationship and the performance expectations on both government and international partners. These have greatly improved predictability and clarified the focus of dialogue. Annual Joint Reviews and performance assessment clarify expectations on government. TA/CB are subjects of dialogue but (except for the implementation of the Integrated System for State Financial Management) not of conditionality. [A3, B1, B3, B4, B5]	
Nicaragua: Negative assessment of key principles and unclear link between assessment and level of disbursement has reduced predictability of funds. The focus on macroeconomics and PFM in conditionality, following the PRSC model, leads also in the use of TA/CB. [B1]	
Rwanda: Conditionality affected predictability negatively (technical PRGF-related; performance-related for EC vertical tranche; political for bilateral international partners). PGBS focused on PFM and less on private sector development, notable in (im)balance of TA/CB until recently. PRSC newcomer, thus too early to assess influence on prioritising policy dialogue. PRSC raising intra-PGBS harmonisation challenge. [B3, C4, B6]	
Uganda: Implicit political conditions created some uncertainty for government. Although governance conditions now clearer, the implications on funding of failure to achieve these and other conditions are not clear. Areas of focus in PRSC matrix and sector conditions do have effect in prioritising the agenda of dialogue; PGBS has raised the importance of, and attention to, TA/CB for PFM, in particular through focusing on and linking support to PRSC and sector actions. [C4, C5]	
Vietnam: In PRSC1 the nature of the conditions caused delays in disbursement which led to a redesign of conditions to prevent this recurring. Conditionality is now more focused on monitoring outcomes of dialogue and policy actions. [C4]	
<i>Synthesis: Design of conditionality (see link D) can influence predictability. Clear performance assessment framework can both clarify conditionality and focus dialogue more effectively.</i>	
<b>G</b>	<b>1.4 → 2.5 PGBS immediate (direct) effect on TA/CB</b>
Burkina Faso: TA/CB inputs have not been a tightly specified part of PGBS package, though for PFM, technical assistance from PGBS international partners is dominant. Provided under PRGB framework and PGBS and Programme for Strengthening Budget Management processes very closely linked. Scope for strengthening PRGB as umbrella for PFM TA/CB, and for strengthening link with TA/CB in sectors. Indirectly there is a link with the ongoing World Bank Administration Capacity Building Project. [B4]	
Malawi: PGBS donors continued the long history of general budget support donor focus on the need for specific PFM TA/CB but none of the PGBS donors provided the main related TA/CB inputs. [B4]	
Mozambique: There has not been a distinct PGBS approach to TA/CB. There are associated TA/CB projects given on a fragmented project basis to the Ministry of Planning and Finance and, given on a pooled basis (led by IMF with bilateral support), for the development of an Integrated Financial Management Information System to strengthen PFM across government. But support for TA/CB lacks the comprehensiveness appropriate to PGBS. [B1, B4, C3]	
Nicaragua: There is important TA/CB clearly linked to PGBS, but other significant technical assistance effort in areas covered by PGBS reforms is outside the Joint Financing Arrangement framework, particularly Inter-American Development Bank technical assistance. Technical assistance covers mainly PFM aspects and is focused at core government level, mainly Ministry of Finance and Secretariat of Strategy and Coordination of the Presidency. [B1]	
Rwanda: TA/CB inputs not tightly specified part of PGBS package but perceived as crucial by government especially for PFM. Good complementarity with other TA/CB inputs but rather opportunistic (e.g. Public Sector Reform/Reconfiguration, education). Scope for further strategic thinking and coordination in relation to capacity development. [B1, B2, B4, C3]	
Uganda: TA/CB inputs have not been tightly specified part of PGBS package, though PGBS designed to complement other TA/CB inputs. Instead parallel TA/CB inputs have been linked through PGBS dialogue and conditionality. Scope for strengthening of this link. [B1, B4, C3]	

Vietnam: Although TA/CB inputs have not been explicitly included as part of the PGBS package, PGBS is designed to complement and reinforce implementation of TA/CB activities that co-financiers are undertaking. This could be better coordinated. [B1, B4, C3]	
<i>Synthesis: TA/CB is the least well specified part of PGBS package in all seven countries. Complementary TA/CB important, but coordination is mostly ad hoc and PGBS potential is under-exploited.</i>	
<b>H</b>	<b>1.5 → 2.4/2.5/2.6</b> <i>Moves towards harmonisation and alignment with national goals and systems, reflected in dialogue and TA/CB work.</i>
Burkina Faso: Strong harmonisation and alignment effects for PGBS itself (policy and systems), (much) less for other aid modalities. Sector processes also instrumental in alignment with goals (even pre-PRSP), hence complementing PGBS but no strong links. Some PGBS demonstration effect re: system alignment, e.g. on sector support aid modalities (though HIPC system influential too). PGBS/PRSP effect on policy dialogue not clear cut. Effect on (PFM) technical assistance due to combined PGBS/ Programme for Strengthening Budget Management processes. [B2, B4].	
Malawi: Strong harmonisation effects amongst PGBS donors relating to relevant dialogue, TA/CB. Moderate link to non-PGBS donors. Alignment to Malawi Poverty Reduction Strategy strong but strategy itself has limitations as basis for planning. [B2]	
Mozambique: Strong harmonisation and alignment effects, including through demonstration effects on other aid modalities (e.g. wide use of Performance Assessment Framework and the increasing alignment of sector programmes with the budget cycle). Harmonisation between PGBS donors mainly takes place through their alignment with government systems. The flaw is in the (in)adequacy of the budgetary systems and perhaps the coherence/ownership of national policy on which donors are aligning. Harmonisation and alignment of TA/CB has extended somewhat: several donors provide TA/CB to the same directorates and also operate a pool to support the Integrated System for State Financial Management which until now focuses principally on budgetary accounting rather than planning. [B2, B4, B10]	
Nicaragua: Strong effects on harmonisation and alignment with the signature of the Joint Financing Arrangement: it includes a single mechanism of performance review and a single performance matrix both accepted by 9 among the more important donors in the country. The Joint Financing Arrangement explicitly foresees the use of national systems and it is aligned to the nationally developed poverty reduction strategy (National Development Plan) and indicates among its aims the increase of harmonisation and alignment. However, potential Joint Financing Arrangement effects on H&A process at national level are reduced by the fact that the Inter-American Development Bank, the Japan International Cooperation Agency (JICA) and USAID are outside the framework. [B2].	
Rwanda: Continuous progress toward harmonisation and alignment since 1997/98 with recent acceleration and deepening. Key drive is government leadership. Harmonisation and alignment inherent in PGBS reinforced by emulation effect. Alignment good at overall policy level, uneven at sector policy level, weak but work-in-progress with regard to systems. Least reflected in streamlining of TA/CB though this too is in progress. [B1, B2]	
Uganda: Moderate to strong harmonisation and alignment effects despite the fragmented nature of PGBS funding; the harmonisation and alignment that are inherent in PGBS itself have been reinforced by demonstration effects on other aid. Quality of government plans and budgets and strength of PFM reform programme have provided strong basis for policy and system alignment. Relatively less influence on explicit TA/CB. [B1, B2]	
Vietnam: Harmonisation and alignment effects have been strong as PGBS has provided a mechanism for increased aid coordination, alignment with government systems and policy and harmonisation between donor activities. [B2]	
<i>Synthesis: Often the PRSP does not set a demanding standard for policy/goal alignment (if not costed, prioritised, some sector strategies undeveloped), while government capacity to participate in central/sector level dialogue affects reality/depth of ownership. Alignment with government budget cycles improving; less progress in medium-term planning, which is crucial. With these caveats, strong harmonisation and alignment effects for PGBS itself, and demonstration/emulation effects in several cases. Previous successful experiences in more specific/limited areas are important.</i>	



*Annex E: Synthesis of Causality Findings*

<b>I</b>	<b>2.1/2.2/2.3 → 3.1</b> <i>Increased resources for service delivery (flow-of-funds effects)</i>
Burkina Faso: Strong increase in funding for basic service delivery, combined effect of increased domestic revenue, HIPC targeted funding, and PGBS stabilisation role (“flexible” resource financing all other essential functions of government). [B3]	
Malawi: No or adverse (compared to past general budget support) flow-of funds effects due to suspension. [B3]	
Mozambique: More resources have been brought fully on-budget through PGBS funds themselves and also by the growing focus of PGBS donors on reducing the volume of off-budget flows more generally. PGBS funds are available for government’s discretionary use to fulfil its PRSP commitments. The Performance Assessment Framework annually makes these commitments more concrete and focused. PGBS funding has also increased availability of funds for recurrent expenditure. However, it is probably true that the same funding also used to go to service delivery but through other aid modalities. Line ministries are concerned at the threat to their direct lines of donor finance for sector priorities. [B3]	
Nicaragua: Pro-poor expenditure has increased and PGBS represents about 10% of it in 2004. But there is no evidence of increased resources for service delivery due to PGBS. HIPC resources to pro-poor service delivery are more than the total of PGBS funds. In education PGBS funds have substituted for funds of completed projects. [B3, B7]	
Rwanda: Strong increase in allocations to priority expenditure, including but not restricted to social sectors and service delivery. Some lack of clarity in the nature of priority expenditure. Fungibility limited by still large proportion of “non-discretionary” spending in the budget (wages, debt, exceptional spending linked to post-genocide measures). [B3]	
Uganda: Strong increase in funds for basic service delivery; this was more the result of funds on budget. (Flow-of-funds effects more important than dialogue, etc. because government was anyway committed to basic services, but additionality of Poverty Action Fund was an important signal for several years). [B3]	
Vietnam: Moderate increase in funds for service delivery. This is as a result of more funds on budget which reinforces a previous shift in government policy towards more funding for education and health. [B3]	
<i>Synthesis: No discernible effects in Malawi, Nicaragua; definite and significant effects in all other cases, including support for service delivery recurrent cost funding.</i>	
<b>J</b>	<b>2.4/2.5/2.6 → 3.1</b> <i>Increased resources for service delivery (dialogue/TA/harmonisation and alignment effects)</i>
Burkina Faso: “Shift in government preference” measured by increased budget shares for basic services was more a result of HIPC funding but PGBS made it possible. Dialogue/conditionality helped. Harmonisation and alignment effects unclear as external financing does not appear to be focusing particularly on basic services. [B3]	
Malawi: No or adverse (compared to past general budget support) effects for pro-poor expenditure. Some impact post-2004 on reducing waste in spending to improve services. [B3]	
Mozambique: Government expenditure preferences (favouring “priority sectors”, mainly education and health) were established in the PRSP, concurrently with PGBS and with strong influence of PGBS international partners. PGBS dialogue and conditionality have maintained pro-poor expenditure commitments, and made disbursement conditional on it. [B3]	

<p>Nicaragua: PGBS conditionality related to service delivery (education) does not include minimum share of expenditure for the sector, but does include process indicators that have direct budget implications (i.e. more schools into the participatory and decentralisation system). Overall PGBS conditionality only establishes a minimum percentage of total pro-poor expenditure over gross domestic product. Though the share of public expenditure for education sector has decreased since 2002, in 2005 it moved to 16% of public expenditure and it is expected to be kept at this level for the next 5 years. It is not clear to what extent this is due to PGBS, as other factors such as the readiness of a sector-wide approach and a common work plan, and the existence of sector budget support could have influenced this new figure. [B3, B7]</p>
<p>Rwanda: PGBS pursued pre-existing effect (HIPC and PRGF discussions on expenditure restructuring). Specific conditionality supports increased spending on social sectors (EC variable tranche, World Bank PRSC) but this is mainly reflecting agreed government–international partners’ positions reached through dialogue. [B3]</p>
<p>Uganda: Dialogue, sector processes, and the Poverty Action Fund innovation were important in attracting on-budget donor funds, which enabled government to shift its expenditures towards the preferences first established in the 1997 Poverty Eradication Action Plan. (So this link also seems to be an important feedback loop to donors.) [B3]</p>
<p>Vietnam: There have been strong impacts from policy dialogue as policy actions have been aimed at increasing funds, particularly to education. [B3]</p>
<p><i>Synthesis: Weak effects at best in Malawi and Nicaragua. Elsewhere, effect is strong/ significant. PGBS dialogue reinforcing concurrent processes/mechanisms which had already prompted shifts in govt preferences/ budgets (Poverty Action Fund in Uganda; HIPC in BF; PRSP generally).</i></p>
<p><b>K</b>   <b>2.1/2.2/2.3 → 3.2</b> <i>Flow-of-funds effects on empowerment to strengthen PFM etc systems</i></p>
<p>Burkina Faso: Empowerment effect present but concentrated in Ministry of Finance (strong feeling that government is better in control of PGBS funding + higher effectiveness due to higher absorption rate. [B3; B4].</p>
<p>Malawi: No evidence of empowerment (and no actual flow of funds). Improvements in fiscal discipline post 2004 attributable mainly to political change. [B3, B4]</p>
<p>Mozambique: By putting more funds on-budget, PGBS has helped to create conditions for the strengthening of PFM, but progress is modest and from a weak base. As a consequence of increased budget funding, Ministry of Planning and Finance and line ministries are beginning to plan budget priorities more effectively and to strengthen budget accounting. However, continued predominance of donor funding through other aid modalities weakens this effect. [B3, B4]</p>
<p>Nicaragua: No effects observed yet. The high number of indicators framing the assessment of government in the use of the Joint Financing Arrangement funds and the still strong policy conditionality on macroeconomic/finance management issues demonstrates that there is still some tension between government ownership of the process and international partner dominance of the relationship. [B3, B4]</p>
<p>Rwanda: Strong empowerment effect of PGBS funding especially at Ministry of Finance and Economic Planning level (sense of control over resources; necessity of greater focus on PFM systems, including Medium Term Expenditure Framework and accountability). But limitations prevailing in actual PFM systems (esp. reporting and accountability aspects). [B3, B4]</p>
<p>Uganda: Strong empowerment effects. Funds on-budget have increased the attention spending institutions and parliament pay to the Ministry of Finance, Planning and Economic Development-led medium-term planning and budget systems, as well as sector policy processes, and the increasing budgets of local governments have attracted capacity. This has put the government in the driving seat for reform, but improvements have not been automatic. [B3, B4]</p>

*Annex E: Synthesis of Causality Findings*

Vietnam: Flow of funds have provided an incentive to improve PFM systems by providing an additional motivation to undertake improvements and through strengthening the budget process. [B3, B4]	
<i>Synthesis: No effect in countries with short PGBS history. Strong empowerment/ incentive effect everywhere else but may be concentrated on central (finance) agencies. Only in Uganda, so far, is there a strong wider effect (spending institutions, Parliament, local governments).</i>	
<b>L</b>	<b>2.4/2.5/2.6 → 3.2</b> <i>Dialogue/TA/ harmonisation and alignment effects on empowerment to strengthen PFM etc</i>
Burkina Faso: Empowerment effect present but concentrated in Ministry of Finance, through close link between PGBS and PRGB which is strongly Ministry of Finance-led and owned. Limitations in dialogue on budget even for PGBS international partners (including because of lack of regular information – to be addressed under new Framework for Budget Support to the PRSP Memorandum of Understanding). Sector support and HIPC modalities have mixed effects on PFM strengthening. [B4].	
Malawi: No evidence of any effect mainly due to suspension. [B3, B4]	
Mozambique: Dialogue, shared conditions and joint performance assessment, within the framework of strong harmonisation and alignment, have greatly strengthened the pressure on government to improve PFM. This is backed by the Integrated System for State Financial Management reforms in budgetary accounting. However, TA/CB in the Ministry of Planning and Finance and covering PFM generally are fragmented between multiple donors. [B2, B3, B4]	
Nicaragua: Discretion in the use of resources is limited by constitutional earmarking which has not yet been tackled by PGBS, and other types of earmarking in favour of sectors. [B3, B4]	
Rwanda: Strong empowerment effect. Continuity in PFM TA/CB allowed rebuilding PFM system from scratch: pre-PGBS 1st phase; now increasingly coordinated 2nd phase with PGBS. Role of inclusive (all PGBS international partners) dialogue on budget composition not yet entirely clarified (transition from HIPC/ PRGF to PGBS reviews; new harmonised calendar). Weaknesses on the side of line ministries. [B2, B4]	
Uganda: Empowerment effect of flow-of-funds (K) has been reinforced by donor participation in planning and budgeting systems through Public Expenditure Reviews, Budget Framework Papers, sector groups, etc. (which embrace non PGBS as well as PGBS aid). Policy dialogue and TA/CB have supported the PFM and sector reforms as well, helping to improve the quality of PFM systems (although the focus has not always been strategic). However, national sector focus has resulted in rigidities at local government level, undermining the empowerment effects on local governments. [B3, B4]	
Vietnam: There has been a moderate effect through policy actions aimed at strengthening PFM and complementary TA/CB programmes.	
<i>Synthesis: Established PGBS has significant effect in strengthening budget process – partly by requiring sector ministries to deal with central resource agencies.</i>	
<b>M</b>	<b>2.4 → 3.3</b> <i>Dialogue encourages and empowers strengthening of pro-poor policies</i>
Burkina Faso: Definition of pro-poor expenditure is problematic (broad and reflecting several concurrent and not fully articulated prioritisation processes/mechanisms). Limitations in policy and budget dialogue (due to weakness in dialogue process – late reviews etc.), but this is improving. PGBS effect undistinguishable from PRSP effect. In spite of being a well organised set-up PGBS does not appear to bring strong value added to the PRSP dialogue. [B3, B5]	
Malawi: Weak link through dialogue around pro-poor expenditures and support for Malawi Poverty Reduction Strategy. [B5]	

<p>Mozambique: The commitment to pro-poor policies exists independently of, but supported by, PGBS. Dialogue in the PGBS Joint Review process and assessment using Performance Assessment Framework have reinforced attention to pro-poor outcomes, made targets more concrete, made the pro-poor agenda more cross-sectoral, and embraced sectors which hitherto had less donor attention. Government has been encouraged to commit to such policies. [B5]</p>
<p>Nicaragua: Positive link because PGBS supports the nationally developed poverty reduction strategy, but general definition of pro-poor expenditure may create problems. Empowerment in the definition/strengthening of pro-poor policies limited by the number of indicators in relation to sector policies, showing a strong influence of donors on the policy content. [B5]</p>
<p>Rwanda: PGBS supports other processes (PRSP, joint overall government–international partner dialogue); support is uneven across sectors/themes (depends on PRSP coverage and strength of link with sector/theme dialogues). Better structured government–international partner dialogue enables government to adopt more participatory policy processes. Link between participatory policy-making and pro-poor nature of policy (analysed by sector). [B5]</p>
<p>Uganda: Strong link found at sector and cross-sector level, although government had pro-poor agenda to begin with. [B5]</p>
<p>Vietnam: There is a strong impact through policy actions aimed at strengthening pro-poor policy. This supports an already pro-poor government reform programme. [B5]</p>
<p><i>Synthesis: As with link I, established PGBS has significant effects; more fruitful where it follows up pre-existing processes. But concepts and instruments of "pro-poor" policy may be weak or problematic. Dialogue has helped protect pro-poor expenditures but broad definitions of pro-poor expenditures may be problematic (see boxes on definition of pro-poor expenditures in each country).</i></p>
<p><b>N</b>   <b>3.1 → 3.3</b> <i>PGBS funding encourages and empowers strengthening of pro-poor policies</i></p>
<p>Burkina Faso: Greater feeling of ownership with PGBS. More resources need better management systems and Medium Term Expenditure Framework becomes more important as there is more to spend (3.2) and permit more pro-poor (or social sector) spending (through PGBS and HIPC combined). [B3]</p>
<p>Malawi: No evidence of link except through PPEs.</p>
<p>Mozambique: The effectiveness of the PGBS dialogue through the Joint Review process (see M) depends on the existence of PGBS funding. Although overall funding levels for services have probably not increased as a result of PGBS, the level of funds channelled through the state budget has increased because of PGBS. Channelling of funds through the state budget supports cross-sectoral dialogue, gives support to cross-governmental policy priorities as expressed in the PRSP, and gives some support to sectors (e.g. the judiciary) which previously received limited donor attention. [B3, B5]</p>
<p>Nicaragua: PGBS is continuing pro-poor policy emphasis started by HIPC but with limited funding so far (see I above).</p>
<p>Rwanda: Strong effect of PGBS funding (through better budget financing) on government empowerment/ incentive to strengthen policy (e.g. fee-free education, Public Sector Reform/Reconfiguration). [B4, B5]</p>
<p>Uganda: PGBS funding has had a moderate effect by helping to increase policy coherence by reinforcing the interest of sector agencies in participating in the pro-poor policy processes. [B5]</p>
<p>Vietnam: PGBS funding supports government expenditure which is already relatively pro-poor, while specific PRSC policy actions aim to increase expenditure in specific pro-poor sectors. [B3]</p>
<p><i>Synthesis: The availability of funding can act as an incentive for agencies to participate in policy processes.</i></p>

*Annex E: Synthesis of Causality Findings*

<b>O</b>	<b>2.4/2.5/2.6 → 3.4</b> <i>Non-flow-of-funds effects on fiscal discipline</i>
Burkina Faso: Improved PFM and implementation of the Integrated Expenditure and Revenue Information Systems provide better tools to maintain fiscal discipline	
Malawi: No evidence of effect pre-2004 with continued fiscal indiscipline. Post-2004 signs that discipline improving. This could be partly attributed to the positive incentives created by effective donor management of conditionality but this argument is not easily testable. [B3, B6, C2]	
Mozambique: IMF policy is the strongest external influence on both government monetary and fiscal policy. However, PGBS dialogue and conditionality, linked to Poverty Reduction and Growth Facility (PRGF), have created pressure to sustain fiscal discipline. Fiscal discipline was not adhered to during the early years of PGBS owing to bank recapitalisation and outlays for post-flood reconstruction. Low levels of tax collection in 2004 have also contributed to targets not being met. However, the general trend is positive. [B6]	
Nicaragua: This is part of the PRGF conditionality. The fact that PGBS refers to IMF programme for the assessment of the appropriate macroeconomic environment creates indirect effect of PGBS dialogue on fiscal discipline. [B6]	
Rwanda: Moderate to weak effects, disciplined macroeconomic management embedded before PGBS. [B6] Conditionality linked to PRGF on track may have been instrumental in stopping temporary bout of fiscal indiscipline in 2003.	
Uganda: Discipline embedded before PGBS, so a supporting influence, not a decisive one. [B6]	
Vietnam: Fiscal discipline was already maintained prior to PGBS. Therefore, there is weak a link in this instance as PGBS only supports this process. [B6].	
<i>Synthesis: PGBS has become established only where there is a track record of fiscal discipline. IMF is the main interlocutor with government. Link from PGBS to PRGF conditionality can reinforce it.</i>	
<b>P</b>	<b>2.1/2.2/2.3 → 3.4</b> <i>Flow-of-funds effects on fiscal discipline</i>
Burkina Faso: Fiscal discipline well embedded before PGBS in the framework of West African Economic and Monetary Union. Supplementary flow of funds smoothly absorbed through the existing system. It just leads to a higher level of expenditures under the same rules of already present fiscal discipline	
Malawi: Negative effect resulting from inability to react to suspension in short term. [B6]	
Mozambique: Discipline is probably influenced by having more funds on-budget, limiting the need to borrow and reducing the deficit after grants for the same level of expenditure. However, late disbursements have had negative effects on budget discipline when the government has resorted to issuing treasury bills to cover liquidity gaps. Fiscal discipline is fully dependent on government behaviour, and flow-of-funds effects, regardless of their size, cannot control but only influence this dynamic. [B6]	
Nicaragua: The government includes in the budget only secured funds. Withholding of funds in the short term has resulted in reduction of activities, but not in new borrowing since external funds are covering mainly capital expenditure and there is a strong fiscal discipline linked to the programme with IMF. Nevertheless, it is too early to use the experience of 2005 as solid evidence of a clear effect. [B6]	
Rwanda: Weak effect on fiscal discipline but effect on providing fiscal space for higher expenditure. Perverse effect at time due to short-term unpredictability in PGBS disbursement. [B6]	
Uganda: Discipline embedded before PGBS, but PGBS funding, by acting as a long-term predictable source of foreign exchange, increasing the resource envelope, and bringing funds on-budget makes task of Ministry of Finance, Planning and Economic Development easier. [B6]	
Vietnam: Again, fiscal discipline was already present, although PGBS brings funds on budget and increases the resource envelope. [B6]	
<i>Synthesis: PGBS is an aid to fiscal discipline, through providing funds subject to budget process. Where there is fiscal discipline, PGBS allows higher spending for same level of fiscal discipline or same level of expenditure for lower deficit.</i>	

<b>Q</b>	<b>3.2 → 3.5/3.6 PFM empowerment of government → improved allocative &amp; operational efficiency</b>
Burkina Faso: Moderate effect. Improved allocative efficiency though combined influence PGBS and HIPC + pre-PGBS/pre-PRGB PFM reforms (e.g. overall Medium Term Expenditure Framework). Limitations e.g. re: capital/recurrent balance and equity issues (not addressed). Operational efficiency not significantly improved yet. [B3]	
Malawi: No evidence of effect. [B3]	
Mozambique: Allocative priorities are clear in the combined effects of PRSP, strengthened and made more specific by PGBS/PAF targets, and expressed also in sector plans. Confidence in the match between budgetary priorities and actual expenditure has been weak, though this is now being addressed by Integrated System for State Financial Management. Operational efficiency is still weak but the recurrent/capital balance is improving and salaries are increasingly being paid on time. [B3, B4]	
Nicaragua: Reforms in PFM have improved registration of official aid on the budget and public expenditure tracking system, but only continued by PGBS not launched by it. The link between planning (the National System of Public Investment) and expenditure (Integrated System for Financial Management and Auditing) through a Medium Term Expenditure Framework is still to be made. Key semi-autonomous institutions (the Emergency Social Investment Fund, the Institute of Rural Development) managing important parts of pro-poor expenditure, are not included in the Integrated System for Financial Management and Auditing and still negotiate bilaterally with the donors. Allocative and operational efficiency is more affected by the fact that aid is 80% project aid and by the autonomous behaviour of certain institutions than by the progress in PFM. [B3, B7]	
Rwanda: Link present (note: PFM empowerment preceded but was strongly supported by PGBS). Allocative efficiency showed in reorientation of expenditure toward priority spending government; better balance recurrent–capital spending (use of PGBS funding to finance policy measures with recurrent cost implications). Weak link Medium Term Expenditure Framework/budget and budget execution. [B3, B4]	
Uganda: Strong link found: allocative efficiency shown in shift to pro-poor expenditure in line with government strategy; operational efficiency in maintaining wage/non-wage balances, increasing the proportion of funding to service providers; improving the efficiency of the development budget; and reducing public administration as a share of the budget. Overall efficiency has been partly offset by increase in the cost of budget financing due to domestic interest costs. [B3, B6]	
Vietnam: There is a moderate link as allocative efficiency has improved due to PGBS and operational efficiency has been assisted by related TA/CB. [B3]	
<i>Synthesis: Significant effects where funds have flowed; related technical assistance significant in some cases. Allocative efficiency may be first effect; much scope still for improvements in operational efficiency.</i>	

*Annex E: Synthesis of Causality Findings*

<b>R</b>	<b>3.2 → 3.7</b> <i>Government empowerment to strengthen systems → stronger intra-government incentives</i>
Burkina Faso: Link not very strong. Less ownership/empowerment in spending/service delivery agencies combined with weak capacities and moderate effect of PGBS on strengthening capacity. Continuation/ expansion of sector/earmarked (HIPC) support modalities has unclear effect on incentives and capacities. Decentralisation to line ministries and regional/local levels only at an infant stage. [B4]	
Malawi: No evidence pre-2004. Post-2004 some evidence of newly empowered government but no evidence of link to PGBS. [C2]	
Mozambique: PGBS dialogue and on-budget financing is strengthening line ministry incentives to operate through national planning and budget channels, but sector aid for key ministries and direct provincial level funding remain more important to them. District budgets still depend mainly on their relation with line ministries. [B4]	
Nicaragua: There is positive effect of PGBS on intra-government dialogue via support provided to mechanisms of intra-ministry dialogue (such as roundtables) and creation of sector-wide approaches. However, these effects are weakened by the still important practice of certain institutions of having a dialogue directly with donors over their own financing. At local level, intra-government incentives are still very weak. [B4, Annex 6A]	
Rwanda: Strong effect of PGBS on intra-government incentives, mainly through funding supporting empowered policy-making, and associated technical assistance/dialogue (including sector-specific). Uneven in various dimensions of government (central agencies > line ministries > decentralised levels). [B3, B4, B5]	
Uganda: Strong link found as on-budget financing strengthens line ministry and district incentives to operate through national planning and budget channels. [B4]	
Vietnam: Moderate link found. Strengthened role of Ministry of Financing assists in better national planning and budgeting and encourages better coordination by government. [B4]	
<i>Synthesis: PGBS strengthens role of Ministry of Finance, requiring sector ministries to engage directly in national budget process. May be undermined by continuation of sector and project support direct to line ministries. Sector ministries have incentive to persist with separate channels, and may need empowerment to engage effectively with Ministry of Finance.</i>	
<b>S</b>	<b>(2.2 →) 3.2 → 3.8</b> <i>Government empowerment to strengthen systems → enhanced democratic accountability</i>
Burkina Faso: Link rather weak. Formal scope of accountability mechanisms has expanded but “quality” still low. Increasing demand from Parliament and civil society but limited capacities and limitations in access to information (e.g. Medium Term Expenditure Framework and PRSP not formally submitted to Parliament). External audit system (Court of Auditors) reinforced but not yet up to standard. Civil society favours HIPC clearer even if not comprehensive “accountability framework”. [B4].	
Malawi: Some signs of improved accountability but no evidence of link to PGBS. [B4]	
Mozambique: PGBS funds are fully on-budget, and together with new instruments for performance assessment and reporting on budget execution have increased opportunities for democratic accountability, audit, and public information. Audit systems are strengthening with PGBS support and pressure, but systems of parliamentary and public accountability remain weak. [B4]	
Nicaragua: No major effect yet, except for the fact that the National Assembly and civil society organisations have possibility to access the Integrated System for Financial Management and Auditing and track public expenditure use. More information, but not yet more accountability, particularly at local level. [B4, Annex 6]	
Rwanda: Weak to moderate effect of PGBS on democratic accountability. PGBS emphasises need for better reporting and generally increased accountability (e.g. Organic Budget Law) but weak domestic demand. Gradual strengthening of Parliament largely unrelated to PGBS. [B4, B5]	

*Evaluation of GBS – Synthesis Report*

	Uganda: Bringing funds on-plan and on-budget increased the interest of parliament in the budget, and broadened the scope of national democratic accountability institutions (auditor general, parliament, elected councils) but effect has been weaker than other effects because most improvements are technocratic, accountability systems are weak, and donors have tended to overshadow the national accountability mechanisms. [B4]
	Vietnam: There is only a weak link to democratic accountability as there have been moves towards greater transparency of the budget process but accountability is still not strong. [B4]
	<i>Synthesis: Where PGBS is established, a common effect is to bring more funding within the scope of national accountability systems. These are typically weak, however, and only in some cases is there a clear increased interest in political accountability as a result. Associated transparency etc. may be a pre-condition, without being a guarantee, of democratic accountability.</i>
<b>T</b>	<b>3.4 → 4.1 Link from fiscal discipline to growth-enhancing macro-environment.</b>
	Burkina Faso: Weak link, if any. Fiscal discipline maintained through regional West African Economic and Monetary Union conventions. Little or no direct influence of PGBS in this respect.
	Malawi: Effect on macroeconomic performance perverse due to weak fiscal discipline leading to PGBS suspension further affecting stabilisation. [B6]
	Mozambique: A more favourable macroeconomic environment – except for high interest rates – has largely been achieved through IMF-guided monetarist policies supported by PGBS which is linked to the PRGF. PGBS has helped reduce the cost of financing the budget and hence the tendency for government borrowing to crowd out private investment. [B6]
	Nicaragua: No effects related to PGBS but rather to PRGF and the related package of laws approved 2005. [B6]
	Rwanda: Fiscal discipline is necessary but not sufficient for growth-enhancing macro-environment. In Rwanda, fiscal discipline has been one, but not a major, factor determining a conducive macro-environment (note that gross fiscal indiscipline would probably be an issue). Policy and regulatory environment is improving but still weak. PGBS/PRSP has been weakly engaged with this agenda. [B5, B6]
	Uganda: On balance a slight positive effect, partly offset by increased interest rates resulting from sterilisation. [B6]
	Vietnam: PGBS has supported fiscal discipline, but as fiscal discipline was already present the overall impact on the macro environment is positive but weak. [B6]
	<i>Synthesis: Links are weak, at best, partly because discipline itself is only indirectly related to PGBS (see links O and P), partly because relationship between fiscal discipline and growth-enhancing environment is contingent (necessary but not sufficient).</i>
<b>U</b>	<b>3.3/3.5/3.6 → 4.2 Better PFM system and Government empowered to strengthen policies → Appropriate private sector regulatory policies</b>
	Burkina Faso: Link moderate/weak: little progress re: private sector policies apart from traditional structural adjustment pre-PGBS policies. Structural changes mainly for large enterprises and privatisation of state-owned enterprises; (too) few conducive measures so far for small and medium enterprises and trade.
	Malawi: No evidence of link. [C2]
	Mozambique: There has been little evidence, until very recently, of an improvement of the regulatory environment or that reforms of the PFM system have contributed to this. However, PGBS has provided a forum for dialogue about this issue with a donor–government thematic group on private sector development that has considered, among other matters, the effect of government’s financial management. [B5, C2]
	Nicaragua: No evidence yet. Many policies foreseen within the National Development Plan, but this is the area where less progress has been made recently. Some of the conditions of PRGF also refer to the regulatory framework for private sector development. [C2]



*Annex E: Synthesis of Causality Findings*

	Rwanda: Unusual structure of private sector dominated by small-scale subsistence agriculture. Little PRSP/PGBS engagement with private sector development until recently. This is changing; in PGBS mainly reflected in PRSC matrix, not yet in other programmes. [B5, C2]
	Uganda: A very slight positive effect in the later years of PGBS as emphasis in the PGBS dialogue shifted towards the private sector. [C2]
	Vietnam: There is a moderate link as policy actions have supported measures aimed at levelling the playing field for private sector companies. [B5]
	<i>Synthesis: Link weak or moderate at best. And weak effect of PGBS, because no/limited engagement of policy-making/PRS/PGBS with growth agenda, so far.</i>
<b>V</b>	<b>3.1/3.5/3.6 → 4.3</b> <i>Increased resources for service delivery and better PFM → More resources flowing to service delivery agencies</i>
	Burkina Faso: Link moderate: centralised budget execution → at service delivery level, projects and other resources are more important than government budget [B3], especially for operational costs. More in-kind resources (e.g. staff, drugs) and investments (schools, clinics) in close combination with HIPC resources [B7].
	Malawi: No evidence of link. [B7]
	Mozambique: Allocations to service delivery agencies have increased since 1995. Policy commitment by government and donors to increasing resource flows to service delivery pre-date PGBS, but PGBS has maintained the commitment and made it more concrete by establishing more detailed targets for prioritising pro-poor services through the Performance Assessment Framework. The allocation of increased funds through the budget and improving PFM systems enable better monitoring of budget execution according to policy priorities, and a more balanced allocation between recurrent and investment expenditure. [B5, B7].
	Nicaragua: (Education) The service delivery decentralisation policy supported by PGBS brings more resources to schools. Funds to the service delivery agencies are limited by the constitutional earmarking, and unit cost in primary education is still the lowest in Central America. [B7]
	Rwanda: Link present but hampered by still weak PFM operational efficiency. However, PGBS (funding) effect is significant, funding new policies affecting service delivery; predictability and timeliness of PGBS affects budget execution and hence service delivery performance. [B5, B7]
	Uganda: A strong effect. Increased resources allocated to service delivery, fuelled by PGBS, have reached service delivery agencies.
	Vietnam: The moderate link in this case stems from policy actions which are designed to increase the flow of funds to service delivery agencies. [B7]
	<i>Synthesis: Link present in some cases, with PGBS effect through contributing to increased resources and support to PFM reforms (i.e. the starting points in the link), but prevailing limitations in PFM, especially operational efficiency (match between allocation and execution), prevent full effects.</i>
<b>W</b>	<b>3.3/3.5/3.6 → 4.4</b> <i>Better PFM system and Government empowered to strengthen policies → Appropriate sector policies address market failures</i>
	Burkina Faso: Link weak – social sector policies in place but pre-PGBS [B5] and don't address private sector role + overall, spending is not pro-poor even in social sectors [B3, coming from World Bank Poverty Assessment 2005].
	Malawi: No evidence of link.
	Mozambique: PGBS has engaged directly with the question of private sector development only since the broadening of its agenda and the development of the Performance Assessment Framework in 2003/04. It has followed the priority orientation of the PRSP to public sector expenditure. However, more recently, under pressure of the PGBS dialogue, donors and government are now giving more attention to private sector development and to legal and regulatory constraints on it. [B5, B6, C2 and D2]
	Nicaragua: Weak link – sector policy for education was already prepared when PGBS started. PGBS involved in the implementation, but only on one specific issue. Other policies such as for rural development and land rights are included in the PGBS dialogue and PGBS international partners are strongly involved in their preparation, but they are not yet finalised. [B5]

	Rwanda: Link present but moderate to weak. Uneven across sectors. PGBS funding effects present in sectors in which other inputs helped to develop policies (e.g. fee-free education). Presence of other (non-PGBS) factors (e.g. sector-specific technical assistance and dialogue) also influencing policies. PRSC-led expansion of involvement at sector level is currently changing PGBS effect on this link. [B5, C4]
	Uganda: As with U, a slight positive effect, as emphasis in the PGBS dialogue shifted towards the private sector and agriculture.
	Vietnam: Policy actions that strengthen the regulatory environment and liberalise the economy have led to a moderate link. [B5]
	<i>Synthesis: Link weak to moderate. Not the same reason as U above, i.e. in this area policy-making/PRSP/PGBS have been more engaged, but mixed/uneven success.</i>
<b>X</b>	<b>3.7/3.8 → 4.5 Government incentives/democratic accountability → people's confidence in government, administration of justice and human rights</b>
	Burkina Faso: Low confidence in government by ignorance, deficient jurisdiction and distrust, especially with regard to corruption issues. More confidence in HIPC scheme because “visible” whereas government budget as a whole is “opaque”. Several international partner-supported projects to strengthen legal system, but doubt about lack of political will and decisiveness in the field of corruption.
	Malawi: No evidence of link. [B8]
	Mozambique: While there has been some adjustment to intra-governmental incentives (R) and the potential for greater domestic accountability (S), these changes have so far had little discernible effect on the administration of human rights, justice or people's confidence in government. [B8]
	Nicaragua: No improvement seen yet in this area which has been worsening since starting of PGBS. It is too early to see effects due to PGBS. [C1, C5]
	Rwanda: Weak link, progress little related to aid except for PGBS funding: effect through government budget as main contribution to restoring basic governance systems. No/limited effect of non-funding inputs (few specific conditionalities in PRSC; long and complex process of restoring people's confidence in state in post-genocide context; limited effects of decentralisation thus far). [B5, B7, B8]
	Uganda: Overall weak effect. Some effect on local accountability inasmuch as PGBS has been major facilitator of decentralisation of service delivery, although conditions from the centre have undermined this. Little discernible effect on administration of justice and human rights. [B8, Annex 6]
	Vietnam: Weak link as human rights are not included within PGBS and justice and democratic accountability are not addressed. [B8]
	<i>Synthesis: Modest examples where PGBS dialogue and policy measures have supported access to justice and other pro-poor governance issues. Some adjustments in intra-government incentives (Uganda, Rwanda, Burkina Faso, Mozambique) and some improvements in accountability/scope for it (same countries) but still no discernible effect of those on people's confidence in government, administration of justice and human rights. Very limited visible PGBS effect, through funding government budget for basic institutions in Rwanda; and through support to decentralisation in Uganda (though arguably this is mainly an effect on the accountability starting point of this link).</i>
<b>Y</b>	<b>4.1/4.2 → 4.6 Influence of macro-environment and private sector policies on environment for growth</b>
	Burkina Faso: Link weak: other factors are key for growth (exogenous shocks, regional situation) and anyway, policies not developed. There begins to be an awareness of the need for rebalancing the policy agenda but it has yet to produce tangible outputs.
	Malawi: No evidence of link. [C2]
	Mozambique: The effects are weak. However, PGBS has contributed to a more favourable macroeconomic environment and, more recently, PGBS dialogue has given some attention to private sector development. [B5, C2]
	Nicaragua: No effects yet. [B5, B6]

Annex E: Synthesis of Causality Findings

	Rwanda: Link weak. Other structural factors tend to swamp effect of public action and PGBS through it. However, recognition that policies should be further strengthened and recent shift in government agenda to focus further on this, including emerging support from PGBS in this. [B6, C2]
	Uganda: Benign effect of PGBS, but this has not been primary focus of policy. Increasing attention to growth and private sector issues within framework of national policy and PGBS dialogue. [C2]
	Vietnam: PGBS influence as support for government reform programme which aims to shift the economy towards a more market-oriented approach.
	<i>Synthesis: Vietnam is the exception (PGBS effect as it supported government market economy reform). Elsewhere, link itself is weak because: (i) starting points are weak (under-developed policies in Burkina Faso, Rwanda); (ii) other factors (besides policies and macro environment influenced by govt) affecting growth (Burkina Faso, Rwanda). Some PGBS effect through contribution to positive macro environment (Mozambique, Uganda). In several cases, recognition of need to rebalance policy agenda implies recognition of a weak policy starting point for this link.</i>
<b>Z</b>	<b>4.3 → 4.7 More resources reach service delivery agencies → more and more responsive pro-poor service delivery</b>
	Burkina Faso: More service delivery. PGBS indirect effect through stabilising whole government budget and allowing HIPC resources to be fully orientated to expand services. Quality and responsiveness issues remain outstanding. [B7, B3]
	Malawi: No evidence of link. [B7]
	Mozambique: More resources are reaching service delivery agencies but this is still due more to sector than general budget support. In the short term, line ministries are concerned about the interruption of the flow of funds by their transfer to the budget. The quantity of services has increased; their quality and responsiveness is doubtful. [B3, B7]
	Nicaragua: (Education) Increased responsiveness is not so far due to increased resources since the education sector received more resources only starting from the 2005 budget. In any case, more responsiveness to the poor would be limited as an effect of PGBS since PGBS directly targets decentralisation of education which deals only with some aspects of relevance for the poor. [B7]
	Rwanda: More resources are allocated to service delivery, flows can be problematic. Responsiveness to the poor is mixed. Main focus has been rehabilitation and expansion of services. Data show continued inequality in access to basic services, which is not raised in the dialogue. [B7]
	Uganda: More resources do reach service delivery agencies. [B3, B7] Increasing quantity, but less evidence of increased quality and responsiveness to the poor, though this features in dialogue (dilemma between quantity and quality of services). [B7]
	Vietnam: Moderate contribution through increase of funds and more efficient PFM systems. [B7]
	<i>Synthesis: More resources and more (quantity) services delivered in all five countries where PGBS is established. Wherever service expansion has occurred (however financed), quality (and access by the poorest) remains an issue, which is becoming more prominent in PGBS review and dialogue (see link Aa).</i>

<b>Aa</b>	<b>4.4 → 4.7</b> <i>Influence of sector policies on pro-poor service delivery</i>
Burkina Faso: Policies seem to have been primarily concerned with expansion. As a result, quality and pro-poor responsiveness issues are outstanding. Spending is not explicitly pro-poor in education and health [B3]. PGBS influence on sector policy dialogue not very strong but this should change (with development of sector Medium Term Expenditure Frameworks – World Bank focusing on health, EC focusing on education, implementing of ten-year plan for the development of basic education and National Health Development Programme. (Or are quality and responsiveness more long-term and PGBS too young?)	
Malawi: No evidence of link. [B7]	
Mozambique: The coverage of social services (education and health) has increased greatly over the last ten years. Sector support and project aid have been the main contributing aid modalities. However, PGBS has maintained support for government's commitment to these sectors, has added collective donor support and pressure to the achievement of measurable targets, and has helped build the systems that will improve spending efficiency and improve the quality of service funding in the future. [B5, B7]	
Nicaragua: (Education) Weak effect, but it is too early to have comprehensive evidence: Where the policy existed for pro-poor services, such as in education, PGBS support has not particularly focused on pro-poor measures (improvement of school management, but not of access of the poorer). Other policies are under development. Though the Performance Assessment Matrix includes several sector indicators they show limited emphasis on tracking effects on the most vulnerable groups. [B7]	
Rwanda: Rebound effect mixed up with policy effect, but apparently greater rebound where policy has been more developed and funding available. Weaknesses in “public action chain” cause uneven policy influence (weak links between policies, funding and action; few specifically pro-poor measures; emphasis on access; weak implementation capacities; weak monitoring systems). PGBS effect on service delivery limited: limited engagement with Public Sector Reform and decentralisation. [B7]	
Uganda: PGBS effects on planning and budgeting systems have helped to strengthen system of policy review and links between policy, expenditure and service delivery; thus far, nevertheless, quantity effects dominate quality effects in delivery. [B7]	
Vietnam: Moderate impact through influence of policy dialogue, but likely to be stronger in the future as more recent PGBS policy actions (health and education) address these issues. [B3, B7]	
<i>Synthesis: Policies have been concerned with expansion primarily; signs that qualitative issues will feature more prominently in future.</i>	
<b>Bb</b>	<b>Level 4 → Level 5</b> <i>PGBS outcomes → poverty impacts</i>
Burkina Faso: Limitations in data have made assessment of trends difficult but growing agreement that income poverty has moderately decreased between 1998 and 2003. Link weak re: empowerment. Some effects on non-income poverty reduction but limited to outputs, no clear trend yet re: outcome/impact (e.g. literacy, maternal mortality) due to time lag issue. [B9]	
Malawi: No evidence of link. [B8]	
Mozambique: PGBS may have had a small positive effect on service use, income-poverty reduction and the empowerment of poor people. However, its medium-term effects can be expected to be greater, given that it supports underlying positive processes (service prioritisation and targeting, sustained government financing, strengthened PFM systems, and support for accountability and judicial reform). [B8]	
Nicaragua: No effects yet attributable to PGBS. [B8]	

*Annex E: Synthesis of Causality Findings*

<p>Rwanda: No recent data on outcomes. Progress in all dimensions though from very low post-1994 level. Income poverty has fallen but inequality seems to have risen significantly from pre-1994 level. Progress in empowerment hard to detect. Public action effect on non-income poverty reduction is mixed up with rebound effect. Indicators are mixed. PGBS funding effect on non-income poverty reduction mainly. Effects of PGBS non-funding inputs through links explored above: weak on income and empowerment dimensions, stronger/moderate for non-income dimension. [B8]</p>
<p>Uganda: Significant effect on non-income poverty through expansion of basic services; income poverty progress has been patchy – undermined by continuing conflict in northern Uganda, and recent apparent setback in overall income poverty reduction. It would be wrong to expect a short-term mechanical relationship between aid/PGBS and income poverty (but this means aid should not claim undue credit for past positive correlation between aid flows and poverty reduction). Empowerment effects are weak, despite the effects of decentralisation on participation, as accountability of government in general and the administration of justice and human rights remain weak. [B8]</p>
<p>Vietnam: Specific links cannot be tracked from Level 4 to 5. It can be inferred that PGBS is supporting this process as PGBS dialogue has focused on the government reform programme which enhances the macroeconomic environment which has in the past been the main mechanism for reducing income poverty. Also empowerment effects from improved service delivery should be reducing non-income poverty. [B8]</p>
<p><i>Synthesis: Cannot confidently track distinct (separately identifiable) PGBS effects to poverty level impact in most countries. Problems in time scale for effects, lack of robust outcome/impact data; tentative inferences possible from output data on service delivery, but weaknesses in data on incidence and quality. PGBS effect hard to discern because of above issues but some effect (mostly on non-income dimension) is reported in Mozambique (through system strengthening effect as noted in previous link); Rwanda (funding + uneven policy and other system effects); Uganda (expansion of basic services – see previous link; BF similar on smaller scale); Vietnam (support to government growth agenda and until now positive trickle down effect).</i></p>
<p><b>Cc</b>   <b>(all levels)</b> <i>Transaction Costs</i></p>
<p>Burkina Faso: Transaction costs for negotiation (setting up Joint Budget Support for the Poverty Reduction Strategy Programme, the Framework for Budget Support to the PRSP) and “mobilisation” (reporting on conditionality etc.) of PGBS have been high but with the Framework for Budget Support to the PRSP in place, costs should decrease. Management costs much lower than for projects (higher PGBS absorption rate). [B3]</p>
<p>Malawi: Although additionality is not present because PGBS supplanted earlier non-earmarked funds, transaction costs of PGBS are higher than earlier funds due to a wider and more diversified general budget support agenda compared to previous general budget support from the same donors.[B3]</p>
<p>Mozambique: In the transition to PGBS, transaction costs for government and perhaps international partners are likely to have increased, especially as other aid modalities continue. Up-front transaction costs have spread from line ministries to Ministry of Planning and Finance, rather than shifting from one to the other. However, PGBS certainly presents lower transaction costs for government at the disbursement stage. [B3, C4]</p>
<p>Nicaragua: Reduction of costs related to identification up to negotiation of PGBS and aid management but new costs arise in this early phase linked to consensus building, negotiation over disbursement of funds, and more complex monitoring and evaluation. [C4]</p>
<p>Rwanda: government perceives significant transaction cost savings from an initially high level. PGBS seen as effective in reducing aid management transaction costs (no parallel systems) and reducing indirect costs (strong empowerment effect), with qualification on role of conditionality. Government and international partners explore various ways to reduce transaction costs further. No detailed review of transaction costs. Trade-off between different types of transaction costs little explored. [B3, C4]</p>
<p>Uganda: Significant transaction costs remain, on both sides, of negotiation and management of PGBS. Nonetheless, World Bank costs per dollar disbursed are lower than for other operations; government management costs in spending PGBS funds are substantially lower than for aid that is required to follow separate donor procurement rules, etc. [B3, C4]</p>

<p>Vietnam: There are transaction costs of negotiation and management of PGBS for both donors and the government. It is assumed that the transaction costs of aid management have fallen for the government as PGBS brings funds on budget in a project-dominated environment. [B3, C4]</p>
<p><i>Synthesis: Ambiguous effects on transaction costs: up-front not perceived to have fallen as some expected, but significant reduction for partner government at implementation stage compared with managing projects through donor procedures. Transaction costs of negotiation/management of PGBS substantial, with shifts in distribution costs within donor/government. NB some costs (e.g. of dialogue) have direct benefits. Overall effect depends on whether PGBS displaces modalities with higher transaction costs.</i></p>
<p><b>Dd</b>   <b>(all levels)</b> Feedback</p>
<p>Burkina Faso: Strong feedback of PGBS on itself, i.e. PGBS design evolving by learning (the Joint Budget Support for the PRSP from pilot on conditionality, the Framework for Budget Support to the PRSP from the Joint Budget Support for the PRSP). Strong feedback on PFM through Programme for Strengthening Budget Management process. Uncertainty about feedback for content (i.e. how effective are PRSP reviews, sector reviews and budget dialogue in influencing future directions?) but necessary monitoring mechanisms in place.</p>
<p>Malawi: Learning process means PGBS design and management evolves over period. Learning is mainly donors reacting to implementation experience. [B9]</p>
<p>Mozambique: Very strong mechanisms for feedback and shared learning exist, particularly in relations between government and international partners through the Joint Review. Mechanisms have also been set up to include civil society, and parliament has access to donor/government assessments – but these remain weakly developed or weakly exploited by stakeholders. At the official level, more attention could be given to (i) assessing poverty impacts (currently reliant on government reporting) and (ii) systematically considering the desirable balance between PGBS and other aid modalities. [B9 and D2]</p>
<p>Nicaragua: PGBS review mechanism is potentially an important improvement in terms of performance assessment, but there is significant scope for further improvement of the system, and there is need to link it better to the national system for development monitoring. [B9]</p>
<p>Rwanda: Quality of PGBS dialogue and review structures depends on quality of government monitoring and review systems. All work in progress, scope for strengthening (e.g. Public Sector Reform Annual Progress Report, budget and sector reviews). Weakest part: no systematic review of institutional developments (Public Sector Reform, decentralisation) built into PGBS dialogue. PGBS is learning from itself, though scope for further formalising mechanism(s) and for more attention to issues affecting long-term sustainability of PGBS (e.g. political nature of aid/PGBS; role of aid/PGBS in long-term development path). [B9, C5]</p>
<p>Uganda: Significant feedback is provided for in PGBS dialogue and review structures, and reflected in adaptations to experience. However, feedback loops more effective in technical and service delivery arenas, than in the corruption, human rights and political spheres. Scope for strengthening monitoring at intermediate levels of results chains, and more attention to issues affecting long-term sustainability of PGBS. [B9]</p>
<p>Vietnam: PGBS provides feedback through monitoring provided by the policy matrix and triggers. This has resulted in adaptation over the PRSC cycle and a recent stock-taking exercise shows willingness to learn lessons. Monitoring of impacts over the medium to long term needs to be strengthened. [B9]</p>
<p><i>Synthesis: Sustainability is an important issue: PGBS is evolutionary in design and has generally shown an ability to learn from experience and adapt accordingly. Less reliance than could be expected on general policy and performance review mechanisms (such as PRSP Annual Progress Reports) and more use of PGBS-specific reporting, although there are moves towards convergence.</i></p>

## **Annex F: Study Process**

### **Introduction**

1. This annex explains how the study was conceived, organised, managed and undertaken. It describes the origins of the joint evaluation, the management arrangements adopted, the study calendar and the composition of the study team.

2. The annex does not evaluate the study process. A Note on Approach and Methods, to reflect on lessons learnt from carrying out the GBS Evaluation, is being prepared separately. It is specified as follows:

A note discussing the approaches and methods used in the evaluation and in particular the experiences of using the Evaluation Framework, should be developed at the completion of the evaluation. This note should provide lessons for future evaluations of GBS and feed into the development of GBS. (TOR §6)

### **Origins of the Joint Evaluation**

3. This evaluation is the culmination of a series of evaluability studies which started in late 2001 when the UK Department for International Development (DFID) launched an Evaluability Study of General Budget Support (GBS). This initiative followed from the increased financial as well as political importance of GBS. The aim was to explore the evaluability of GBS and develop an evaluation framework, which would subsequently be applied in a joint evaluation of GBS.

4. An evaluation framework resulting from this work on the evaluability of GBS was discussed at the workshop, 3-4 March 2003, hosted by DFID Evaluation Department under the aegis of the DAC Network on Development Evaluation and a one-day workshop in Kampala, 28 May 2003, hosted by the Ministry of Finance, Planning and Economic Development of Uganda, where preliminary testing of the Framework had been undertaken. The workshops clearly indicated that further evaluation activities on GBS were needed and demanded. Moreover, participants strongly supported the view that, as GBS is a joint-partner instrument for delivering resources to a country, it makes sense to conduct the evaluation jointly.

5. Accordingly, a meeting of the DAC Network on Development Evaluation in Paris, 24-28 March 2003, endorsed the creation of a technical working group for preparing the joint evaluation of GBS, and more precisely to prepare a planning workshop, which was held in Brighton 14-15 October 2003. The workshop, which was again hosted by DFID Evaluation Department, brought together over forty evaluation specialists, economists and policy makers from a range of bilateral and multilateral agencies. The planning workshop agreed the scope and focus of the evaluation and established a Management Group (MG) and Steering Group (SG) and the joint evaluation of GBS was formally launched. Detailed TOR for a multi-country study were drawn up, and the present evaluation began in late 2004.

## Main Events and Dates

6. Box F1 below provides an overview of the main events and dates of the GBS evaluation:

**Box F1: Joint Evaluation of GBS – Main Events and Dates**

Date	Event
<b>2003</b>	
14–15 October	SG Planning Workshop (Brighton)
<b>2004</b>	
14 January	SG (Paris)
23 August	Contract Start Date (mobilisation)
13–14 September	Team Workshop (Birmingham)
15 October	Contract Signature
26 October	SG (London)
October–December	Country Inception Visits
<b>2005</b>	
24 January	Draft Inception Report
1–2 February	SG Meeting to review Inception Report(Brighton)
23–24 February	Inception Workshop (Birmingham)
14 March	Revised Draft Inception Report
26–27 April	Field Preparation Workshop (Birmingham)
22 May	Final Inception Report <sup>7</sup>
May–July	Field Visits: May: Vietnam, Rwanda, Mozambique June: Nicaragua , Malawi, Burkina Faso July: Uganda
28–29 July	Synthesis Note Workshop (Birmingham)
from 12 September	Draft Country Reports and Draft Synthesis Note to MG/SG
5–6 October	SG meeting to review Country Reports and Synthesis Note (Reading)
13–14 December	Synthesis Report Workshop
<b>2006</b>	
18 January	Submission of draft final Country Reports (English)
25 January	Submission of draft final Country Reports (translations)
14–15 February	SG Meeting to review draft Synthesis Report
9–10 May	Dissemination Conference (Paris)

## Study Management Structure

7. The Joint Evaluation of General Budget Support (GBS) was commissioned by a consortium of aid agencies, which were all represented on the Steering Group (SG) for the study. The SG was chaired by DFID.

8. The consortium comprised the Governments of Australia, Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Japan, The Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and the USA, plus the European Commission (EC) and the Inter-American Development Bank (IADB), the IMF, the Japan Bank for International Cooperation (JBIC), OECD DAC and the World Bank.

<sup>7</sup> DFID's published version is dated June 2005.



9. The evaluation was undertaken in collaboration with the governments of Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam, which were also represented on the SG.

10. A smaller Management Group (MG), also chaired by DFID, was responsible for day-to-day oversight of the study. The study was financed by pooled funds, managed by DFID, which contracted the study on behalf of the consortium.

11. Reference groups, of varying degrees of formality, were also established in each of the study countries. These are described in the Country Reports, along with details of the country-level process (see Annex 1 in each case).

### Study Team

12. This report and the supporting country reports have been prepared by an evaluation team led by Stephen Lister. The full list of consultants on the evaluation team, together with their main roles and their affiliations, is provided below.

Gaspard Ahobamuteze (independent)	Rwanda
Haroon Akram-Lodhi (ISS)	Gender
Philip Amis (IDD)	Malawi, poverty analysis
Marco Barassi (University of Birmingham)	Econometrics (inception)
Tony Barnett (London School of Economics)	HIV/AIDS
Ann Bartholomew (Mokoro)	Vietnam team leader
Wilson Baryabanoha (Kebu)	Uganda
Richard Batley (IDD)	Mozambique team leader, institutional analysis
Liv Bjørnstad (Mokoro)	Mozambique, study support
Enzo Caputo (DRN)	Quality assurance
Rebecca Carter (IDD)	Study coordination, Nicaragua
Jens Claussen (NCG)	Malawi team leader
Amélia Cumbi (independent)	Mozambique
Albert de Groot (ECORYS)	Macroeconomic analysis, Mozambique
Simon Delay (IDD)	Malawi, PFM analysis
Catherine Dom (Mokoro)	Burkina Faso, Rwanda, institutional analysis
Marco Ercolani (University of Birmingham)	Econometrics (inception)
Alta Fölscher (Mokoro)	Human Rights
Paola Gosparini (DRN)	Nicaragua team leader
Charles Harvey (independent)	Macroeconomic analysis
Mike Hubbard (IDD)	Partnership analysis, Nicaragua
Piet Lanser (ECORYS)	Burkina Faso team leader
Robert Leurs (IDD)	Vietnam
Stephen Lister (Mokoro)	Team Leader, Uganda team leader
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**JOINT EVALUATION OF GENERAL BUDGET SUPPORT 1994–2004**  
*Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam*

# **Synthesis Report Appendix**

**May 2006**



**Joint Evaluation of General Budget Support**  
**SYNTHESIS REPORT: APPENDIX**

**Contents**

<b>Burkina Faso Executive Summary</b>	<b>1</b>
<b>Malawi Executive Summary</b>	<b>11</b>
<b>Mozambique Executive Summary</b>	<b>19</b>
<b>Nicaragua Executive Summary</b>	<b>33</b>
<b>Rwanda Executive Summary</b>	<b>47</b>
<b>Uganda Executive Summary</b>	<b>61</b>
<b>Vietnam Executive Summary</b>	<b>73</b>



## **BURKINA FASO EXECUTIVE SUMMARY**

### **Part A: Context and Description of PGBS**

#### **Introduction and Conceptual Framework**

1. Burkina Faso is one of seven case studies in a Joint Evaluation of General Budget Support (GBS). Budget support is a form of programme aid in which Official Development Assistance (ODA) that is not linked to specific project activities is channelled directly to partner governments using their own allocation, procurement and accounting systems. General Budget Support is not earmarked to a particular sector or set of activities within the government budget. The flow of funds in GBS is usually accompanied by other inputs – a process of dialogue and conditions attached to the transfer, technical assistance (TA) and capacity building, and efforts at harmonisation and alignment by the GBS International Partners (IPs). Other forms of programme aid (including debt relief and other balance of payments support) may also be considered as budget support because they generate resources that can be used to finance the government budget, but this evaluation concentrates on so-called ‘new’ or ‘Partnership’ GBS (PGBS). This focuses explicitly on poverty reduction, and it attempts to support nationally developed strategies rather than imposing external policy prescriptions.

2. Although the evaluation focuses on Partnership GBS, it covers the period from 1994–2004 in order to assess whether and how PGBS differs from other variants of budget support. The purpose of the evaluation is to assess to what extent, and under what circumstances, PGBS is efficient and effective for achieving sustainable impacts on poverty reduction and growth. The study in Burkina Faso followed the same methodology as the other country cases. This is fully set out in the Inception Report approved by the Steering Committee for the study, and involves working through ‘levels of analysis’ from the entry conditions at the point that PGBS was adopted, to the inputs made by PGBS, their immediate effects, outputs, outcomes and impacts on poverty reduction.

3. The main benefits from PGBS are expected to derive from reinforcing countries’ ownership, enhancing the performance and accountability of partner governments’ PFM systems, minimising transaction costs and increasing the predictability of resources and reducing volatility (OECD DAC, 2005). This study examines these themes as well as assessing the extent to which other effects occur such as increased harmonisation and alignment, strengthening of policies and processes, supporting macroeconomic stability, increasing the efficiency and effectiveness of service delivery and, eventually, reduction of poverty.

#### **The Context for Budget Support in Burkina Faso**

4. Burkina Faso has been receiving budget support under the structural adjustment programmes agreed with the Bretton Woods institutions since 1991. Throughout the same period, the European Commission (EC) has provided budget support under consecutive European Development Fund (EDF) agreements. During 1994 to 1996, Burkina Faso also received significant macroeconomic support to mitigate the CFA franc devaluation shock in 1994. The Netherlands and Switzerland have provided macroeconomic support almost annually since 1995 and 1994 respectively.

5. Towards the mid-1990s, the Strategic Partnership with Africa (SPA) working group, which was looking at the issue of aid efficiency and effectiveness, suggested a number of conditionality reforms. It was decided, with the agreement of Burkina Faso, to organise a pilot on conditionality in order to check the appropriateness of planned reforms. The main elements of the new conditionality consisted of improving the ownership of reforms being supported,

predictability in disbursement of funds, and coordination and harmonisation of support from the IPs.

### **The Evolution of Partnership GBS in Burkina Faso**

6. Following the pilot on conditionality and subsequent discussions at national level, a number of IPs decided to provide budget support jointly according to the principles of the new conditionality for the PRSP (*Cadre Stratégique de Lutte contre la Pauvreté*), which was prepared in the context of the HIPC initiative. This was covered by a Memorandum of Understanding (MOU): the Protocol on Joint Budget Support for the PRSP (SBC-CSLP). The strategy was also supported by a (still-continuing) series of World Bank budget support credits which began in 2001. These operations, initiated in 2001 for the WB PRSC and 2002 for the programmes under the SBC MOU are the first ones to be considered as PGBS in this study.

7. In 2005, the two processes converged: the MOU for Joint Budget Support was replaced by the general framework for budget support for the implementation of the PRSP known as CGAB-CSLP (*Cadre général d'organisation des appuis budgétaires en soutien à la mise en œuvre du cadre stratégique de lutte contre la pauvreté*) which now brings together all the IPs providing budget support, including the EC and the World Bank. Under this agreement, the role of the government was strengthened and internal review mechanisms were greatly improved. The government and the IPs agreed on an annual calendar of joint activities, and a joint performance assessment matrix was approved by all the stakeholders in July 2005.

8. This development occurred in the context of heavy dependence on international aid (ODA – Official Development Assistance – makes up around 50% of total public expenditure, although the exact figure is difficult to establish since a large part of project finance is still outside the government's information systems). Between 2001–2004, Burkina Faso received CFAF 338bn (approximately EUR 491m) in the form of budget support. This is a substantial increase compared with the CFAF 149bn (approximately EUR 227m) support provided in the previous four years. The available data, despite being incomplete, show that PGBS represents now more than a third of ODA accounted for by the government. Most of the main IPs use PGBS to support Burkina Faso, although the proportion given over to it varies greatly from one country's portfolio to another's.

## **Part B: Analysis of PGBS**

### **Relevance of Partnership GBS**

9. There has never been any doubt of Burkina Faso's eligibility to receive the new form of budget support because of the developments noted here. The country is a model of stability as far as its relations with the IMF are concerned, and its leading role in establishing the PGBS paradigm (as the country where the new conditionality was tried out) made it an obvious candidate for PGBS. For the EC and some bilaterals, this was demonstrated by the country's progressive development, from its support programmes for structural adjustment concentrating particularly on the protection of social sectors, to very general programmes supporting the government's strategy for fighting poverty. For the World Bank this has led to a progressive expansion in the reform agenda supported by its Poverty Reduction Support Credits (PRSCs).

10. PGBS is based on national policies which have been jointly endorsed by all IPs involved, in particular the PRSP. The first PRSP was drawn up in 2000 under the HIPC initiative in order to meet the completion point conditions to benefit from debt relief. This document has subsequently provided the policy basis for budget support. While the first PRSP was mainly the work of the government, with only limited participation from other stakeholders, the 2003 review of the PRSP was undertaken with a higher level of involvement from local authorities, civil society, the private sector, parliament and IPs. The content of the second PRSP is in line with



the first PRSP and aims at economic growth and poverty reduction through the following four main pillars:

- Accelerating growth based on equity.
- Guaranteeing access to basic social services and social protection for the poor.
- Enhancing opportunities for employment and income generating activities for the poor.
- Promoting good governance.

11. As a consequence of these developments, PGBS takes quite good account of the strengths and weaknesses of the financial, economic, social, political and institutional context of the country. It is based on an agreement on cooperation between the government and IPs, in which the government's role has evolved over time so that the government now assumes leadership. The new partnership agreement represents a strong foundation for a genuine policy dialogue, as well as close harmonisation and alignment. PGBS supports the PRSP which includes all dimensions of poverty, although its current formulation seems to be more oriented towards poverty reduction in terms of living conditions, while activities focusing on income poverty and empowerment are less developed. It is therefore also the case that PGBS, as also the joint matrix for performance assessment recently adopted by the government and the IPs, covers the four main areas of the PRSP – even though the measures to be taken and the performance indicators remain more detailed for the social sectors and Public Finance Management (PFM) reform than is the case for the other sectors and spheres of the PRSP.

#### **Effects on Harmonisation and Alignment**

12. PGBS has led to harmonisation and alignment of aid which is hard to envisage under other forms of assistance. Harmonisation and alignment is most visible in GBS itself, but these developments have effects which extend also to other forms of assistance, notably sector support. Joint financing arrangements through common baskets already existed, but they were often characterised by specific procedures that were parallel to national procedures. Sector financing now tends increasingly to adopt national procedures in the manner of PGBS.

#### **Effects on Public Expenditure**

13. Between 2000 and 2004, total public expenditure rose, particularly due to the increase in the government's own resources. PGBS funds, although significant, have had comparatively less importance in causing this increase.

14. PGBS funds did not influence on their own the level and proportion of pro-poor expenditures. Budget support is used in proportion to budget shares of government own funding to increase available resources for the social sectors. Data suggest that these shares did not increase significantly over the PGBS period, though a slight trend upward is visible for education. But the difference as far as pro-poor expenditure is concerned comes mainly from HIPC funds (narrowly targeted on the social sectors). Untargeted PGBS funding makes this full deployment of HIPC resources toward pro-poor expenditures (PPE) possible through playing a stabilising role for all government's essential expenditures. It should be noted that the definition of pro-poor expenditure is not entirely clear cut.

15. Predictability of GBS funds has improved but is not yet perfect. Incorporation of aid in the budget has increased, but the same applies for aid in general (that is to say that IPs, particularly those involved in PGBS, are making an effort to ensure that their project support is also reflected in the government budget). As it is difficult to estimate the total amount of aid which is not listed on-budget, it is not possible to state whether, in the final analysis, the total proportion of listed aid has increased.

16. Making a judgement on the overall efficiency of public expenditures is not easy given weaknesses in terms of budget comprehensiveness (off-budget ODA), lack of clarity in definitions of PPE and the lack of consistent data series. Overall, allocative efficiency has improved in so far as there is a shift toward policy priorities in government overall spending, though intra-sectoral patterns do not confirm this unequivocally. Trends with regard to the balance between recurrent and capital funding are unclear due to the role of external project financing. PGBS had a moderate influence on the efficiency of government spending and in particular it does not appear to have succeeded in reducing the recourse to regulatory mechanisms for within-year budget releases (in line with cash available) which hamper operational spending efficiency.

### **Effects on Planning and Budgeting Systems**

17. PGBS has a strong effect on modernisation of public finance management, although this fits in with the ongoing reform efforts (and IP support for those reforms) which began long before PGBS was instituted (including in the framework of the strategy of regional integration being followed by Burkina Faso). However, the Programme for Strengthening Budget Management (PRGB – *Plan d'Actions pour le Renforcement de la Gestion Budgétaire*) brought these efforts together, and represents one of the key elements of the budget support agreements. The PRGB is, on the one hand, a prerequisite for PGBS in the sense that it guarantees to IPs that the government is committed to improving the PFM system through which PGBS operates. On the other hand, PGBS strongly supports PRGB implementation, as much through policy dialogue, the conditionality framework and associated institutional support as through a direct effect of strengthening the importance of national PFM systems just by using them in preference to parallel management modalities.

18. PGBS has had more influence in terms of strengthening government ownership of the PFM reforms (especially within the Ministry of Finance and Budget) than it has had in terms of strengthening accountability for public expenditures. Reforms in this area are taking place, supported by PGBS IPs' conditionality, policy dialogue and associated TA and institutional strengthening initiatives, but progress is slower than IPs would wish. In terms of capacity development and sustainability, the PFM reform process is strongly established and a number of reformed systems and processes are also well embedded. PGBS has influenced this through its support to the PRGB. The main constraint is the more limited outreach of the PRGB toward sector ministries and de-concentrated and decentralised structures.

### **Effects on Policies and Policy Processes**

19. IPs are closely involved in the discussions relating to the preparation and implementation of the PRSP. The PRSP results are reviewed annually, on the basis of reports prepared by the government according to a calendar which has been jointly agreed. The CGAB-CSLP is also reviewed periodically to enable a deepening of the dialogue between parties involved in the agreement and the adjustment of arrangements as necessary. The new agreement is the result of intensive negotiations and discussions between government and the IPs, taking into account strengths and weaknesses of the previous MOU. Besides elements from the annual PRSP progress reviews, PGBS reviews also include a dialogue on the macroeconomic framework (entirely based on the dialogue between the government and the IMF) and a performance review of PFM reform.

20. The major macroeconomic orientations, as well as sectoral policies in some priority sectors, were established well before the emergence of PGBS. PGBS has nevertheless contributed to reinforcing the existing trends in sectoral policies for education and health. PGBS was a stimulus among others prompting the government to promote the participation of various sections of society in the preparation of PRSP-2. However, policies and action plans relating to

productive sectors are poorly developed and PGBS has only a limited effect on them, which limits the chances of achieving a desirable impact in terms of income poverty reduction.

21. There are also recent indications that a combination of factors (including existing policies such as user charges, patterns of intra-sectoral resource allocations, and weak demand from the poorest groups) leads to spending patterns that are not pro-poor in the social sectors (for which policies are more developed). Arguably, PGBS may have prompted such analyses to be conducted, which is a first step in the process of addressing these policy issues. On the other hand, it has been recognised that previous analyses such as the regular Public Expenditure Reviews (PERs) conducted over the PGBS period have not been fully taken up and used in the government policy-making process.

### **Effects on Macroeconomic Performance**

22. Macroeconomic policy is mainly decided in other contexts, notably within the West African Economic and Monetary Union (WAEMU) for regional economic integration, as well as during half-yearly discussions with the IMF, whose leading role is acknowledged by all the IPs. Although macroeconomic stability existed before PGBS, PGBS plays an important role in maintaining this stability through the importance which it implicitly attaches to it.

23. PGBS has strengthened the financial position of the State. Budget support is treated as part of the State's own resources. It does not directly serve to increase the proportion of pro-poor expenditures in the national budget. It contributes to securing the entirety of priority expenditures, pro-poor and other, and in this way, it releases other resources (e.g. HIPC funds) which can be fully used in PRSP priority sectors. PGBS has also had an indirect but important effect in assisting the strengthening of revenue mobilisation and generally modernising the revenue side of PFM through its support to the PRGB.

### **Effects on Public Services**

24. Service delivery has been improved mainly through an increase in supply, whereas institutional changes are difficult to perceive. As a result, access indicators have improved but the picture is mixed with regard to qualitative aspects and pro-poor responsiveness. Local accountability mechanisms are not fully developed. Budget support has played a significant role in allowing increased resources to be allocated to education and health: as noted in ¶14 it has facilitated the full deployment of HIPC resources to pro-poor expenditure/ priority sectors among which education and health were utmost priorities and, in the case of education, also through an increasing share of government own resources. This has enabled schools and health centres to be better staffed and better equipped but there remain significant challenges even in the distribution of these inputs across the country. Other PGBS inputs have not had an effect on public service delivery.

### **Effects on Poverty Reduction**

25. The evaluation notes an impact of PGBS on poverty reduction relating to living conditions through the improvement in the delivery of essential services. The overall impact on income poverty is modest and mainly indirect through general economic growth and macroeconomic policy. Impact on empowerment and social inclusion is still not very visible.

### **The Sustainability of PGBS**

26. Coordination and harmonisation between the government and IPs has been strengthened through PGBS, which has raised the policy dialogue to a higher level than that in relation to projects and sector interventions. This has also given it a more integrated and holistic character. Under the new agreement, the cooperation framework has been improved compared

with the previous MOU by establishing more balanced roles between the government and the IPs and by recognising that leadership belongs to the government.

27. Feedback loops linked to PGBS implementation are generally in place and effective through the respective annual reviews, especially as far as public finance management and the macroeconomic level are concerned. Feedback loops are weaker with regard to policy, owing to the more complex nature of the dialogue (with the Ministry of Economy and Development leading the PRSP process while the PGBS process is led by MFB on the government side). Limitations in data collection and analytical capacity as well as the lack of clear mechanisms for analyses to be taken into account, as noted above (¶21), are also constraints to policy adjustment.

## **Part C: Cross-Cutting Issues**

### **Policy CCIs**

28. All four policy CCIs – gender, HIV/AIDS, environment, and democracy and human rights – are addressed in the PRSP and hence in PGBS. Democracy and human rights are closely related to good governance which is at the heart of PGBS. Reporting on other cross-cutting issues related to PGBS takes place through the PRSP. As far as gender and HIV/AIDS are concerned, the joint performance assessment matrix includes measures and actions for the formulation of national policies and strategies. The environment is not specifically mentioned and is supposed to be taken into account in the strategies for rural development and the private sector.

### **Public and Private Sector Issues**

29. Public and private sector issues are part of macroeconomic reform programmes, monitored by the Bretton Woods Institutions (BWI), and special projects. PGBS as such does not play a direct role in this area, but these operations are indirectly part of the policy dialogue, just as macroeconomic progress is part of the disbursement criteria. In addition, policy dialogue through the CGAB-CSLP supports the government in the preparation of sector policies. Indirectly the developments are monitored through the PRSP review as private sector development is part of the first pillar. However, the corresponding strategy is not yet well developed.

### **Government Capacity and Capacity Building**

30. Government capacity is generally weak but several initiatives are currently taking place to improve this situation. Capacity building relating to PFM issues is at the heart of PGBS. The implementation of the PRGB is one of the three cornerstones of PGBS. The transformation of the PRGB into a fully-fledged sector strategy for PFM, reaching out more actively towards all government agencies, will be a significant step forward. It should also enable better alignment of IPs' support to PFM reforms with the PRGB/PMF strategy priorities. More generally, capacity building has been addressed through inputs at sectoral level which have generally not fully met government and IPs' expectations. Among other aspects, capacity development initiatives appear to have been poorly coordinated and in particular, there are poor linkages between sectoral and cross-sectoral activities. Further efforts are planned through the WB-financed Administration Capacity Building Project (ACBP) which started in 2005 (which, as well as general institution-building aspects, includes a number of PFM elements). However, it is not clear as yet whether and how the project might help to improve coordination of TA/institutional support across government reforms.

31. A special concern is the process of decentralisation, which is currently being put in place. However, capacity and resources of decentralised structures are weak. PGBS donors are willing

to provide support but are waiting for government initiatives in this area in an attempt to stimulate the Burkinabé government into showing more leadership.

### **Quality of Partnership**

32. The first MOU on GBS mainly resulted from the work of the IPs carried out with the government's approval. Following proposals to review this MOU, the initiative was taken over by the government which mandated a genuine evaluation to be conducted before signing took place. The discussions have led to the new CGAB-CSLP agreement for which the government has assumed leadership. Government and IPs agree on the high importance of ownership, which the pilot on conditionality also emphasised. During the PGBS process there has been growing convergence on most of the issues between government and IPs, which resulted in the commonly agreed joint performance assessment matrix.

33. A discussion is under way concerning the role of sector support instruments and their articulation with PGBS. There are different views on this among government and PGBS IPs and it will be important to reach a mutually acceptable position which further strengthens the positive effect of PGBS on government ownership and leadership.

### **Political Governance and Corruption**

34. Burkina Faso has a multi-party, democratic system with general elections. Government, parliament and civil society institutions responsible for issues of transparency and accountability are often recently established and lacking necessary capacity, but are in the process of being strengthened, often with support of the donors. However, as noted above (¶18), there are diverging views as to whether the pace of progress is as steady as it should be. Access to justice is often limited, especially for the poor, but government is conscious of this and a large number of initiatives are currently being implemented to redress this situation, although it is clear that this will still take several years to bear tangible results.

35. Corruption is one of the few areas in which the opinions of government and donors diverge. Burkina Faso has an impressive set of institutions in the area of accountability and the fight against corruption. However, the donors consider the effectiveness of these institutions as being too low and encourage the government to demonstrate more tangible results and concrete commitment to combat this plague.

## **Part D: Synthesis – Overall Conclusions and Recommendations**

### **Overall Assessment of PGBS in Burkina Faso**

36. PGBS is a process which has developed over time. It combines two major shifts: development from structural adjustment programmes to general poverty reduction efforts and the gradual evolution from project and programme aid to greater harmonisation and alignment.

37. PGBS effects were found in relation to all the three main flows, namely funds, policies and institutions. Effects are most pronounced in flow of funds followed by policies, while there was a strong effect on core PFM institutions but only to a lesser degree on other institutions.

38. Three particularly positive aspects in the development and influence of PGBS in Burkina Faso are:

- The gradual convergence of PGBS IPs' approaches which have led to the establishment of a common and strong partnership framework through the CGAB-CSLP and its operational provisions (calendar, joint reviews, joint performance assessment matrix).
- The strong complementarity between HIPC (targeted funding) and PGBS (untargeted funding), which resulted in significantly increased volumes of resources allocated to the social sectors.

- The continuous and steady support to PFM reforms, including support to government recognition of the need for a more comprehensive and strategic approach in the future.

39. Points of weakness include:

- The PGBS policy dialogue has focused particularly on budget support and PFM but with regard to poverty reduction PGBS is closely linked to the PRSP agenda, with many policies already in place before PGBS. Until now, PGBS has not provided significant added value in the policy dialogue with regard to sector policies and institutional reform.
- While the advantages of PGBS are recognised by all partners, there appears to be little spill-over to other sectors outside the Ministry of Finance and to other aid modalities.

40. In terms of the Evaluation Framework, there were strong effects at Levels 1 to 3 but less so at Levels 4 and 5. At Level 4 there were links to more service delivery, which should lead to further impact on non-income poverty reduction at Level 5, but developments are too recent to have been positively measured yet. Links towards a more appropriate productive environment and improved administration of justice are less visible.

### **PGBS in Burkina Faso – Future Prospects**

41. PGBS has increased ownership, predictability and policy dialogue at central level. It is based on three pillars: macroeconomic stability, strengthening of PFM, and poverty reduction. Of these three PFM is a direct concern of PGBS through the PRGB programme. Much has been accomplished but the agenda has not yet been completed and much remains to be done. This concerns particularly the strengthening of ministerial departments and the implementation of decentralisation.

42. Although the discussion on harmonisation and alignment had already commenced in the mid 1990s and Burkina Faso had served as a pilot on new conditionality, it was not until 2005 that the government and IPs succeeded in agreeing on a joint performance assessment matrix. For the coming years the challenge will be to implement and improve this matrix, and for each IP to tailor its PGBS instrument to the operational provisions of the CGAB-CSLP.

43. There is a tendency to extend experience with harmonisation and alignment in GBS to other aid modalities, especially sector-wide approaches. This might ultimately lead to genuine sector budget support. However, administrative and managerial capacity at sector level is often limited and needs to be strengthened. Furthermore, there needs to be greater clarity about the way in which PGBS and sector support instruments can best complement each other in supporting sector strategies.

44. PGBS has certainly played a role in the expansion of public services. The expansion of these services is a central point of the PRSP. However, it is unclear whether these services do indeed reach the poorest sections of the population. Analytical capacity in design and implementation of policies needs to be strengthened to enable better targeting of these efforts.

45. While structural adjustment policies gave too little attention to the social sectors, the PRSP appears to do the opposite. At present productive sector policies are relatively weak. In order to achieve sustainable development, the next PRSP needs to establish a better balance between its four pillars.

46. A process of decentralisation was launched more than a decade ago. It is progressing slowly and was due to result in administrative and political decentralisation towards the end of 2005, with the election of representative bodies for rural communities. Regional authorities will soon be able to exercise fully their decentralised responsibilities. PGBS funds will also be decentralised by the government to regional authorities. The first question to address is how

these authorities will be made fully accountable for the implementation of national strategies with sectoral objectives set at the central level. The second question relates to whether PGBS can contribute to the development of local authorities while supporting the government in achieving the desired level of overall sector performance (monitored under PGBS through associated performance indicators).

47. Sub-regional economic integration is carried out under the WAEMU which is a customs union with a common market, common external tariff and macroeconomic convergence policy. PGBS, like the PRSP, does not yet have a regional dimension, although some individual IPs, such as the EC, have sometimes linked their budget support to progress in regional economic integration. PGBS is a mechanism which works mainly at the national level but whose modalities and effects should take account of the commitments for regional integration entered into by Burkina Faso.

### **Recommendations**

48. Based on the assessment of PGBS, the report makes the following recommendations (this list is neither exhaustive nor in order of priority):

- R1 Pursue the preparation of productive sector strategies alongside the social sector strategies already in place.
- R2 Define more employment and income-generating policies and strategies in non-agricultural sectors.
- R3 Further develop a national strategy and action plans to promote SMEs and trade.
- R4 Define sector policies clearly as frameworks for aligning all aid including project aid, and for strengthening PGBS alignment at more operational levels.
- R5 Undertake further policy analysis (e.g. incidence of current policies and patterns in use of government resources) with a view to strengthening the pro-poor orientation of policies and, through strengthened links with the MTEF/budget, ensuring better pro-poor targeting of public services. This would include following up on the findings of the WB poverty assessment (2005) and on this basis, exploring the scope for a fundamental rebalancing of policies and strategies in relation to the respective importance of basic vs. tertiary services in the government budget.
- R6 As part of/following the above analysis, identify and implement measures aimed at improving the quality of services according to the needs of (poor) beneficiaries.
- R7 Analyse existing user-fee policies and explore the scope for changes including budgetary implications.
- R8 Streamline/clarify the role of the various prioritisation mechanisms in use (PRSP PAP, HIPC, MTEF, PIP) and further strengthen the budget classification to allow for pro-poor budgeting and expenditure monitoring/tracking.
- R9 Strengthen national monitoring, evaluation and audit institutions.
- R10 Continue to pay attention to strengthening the role and capacities of national stakeholders calling for further transparency and accountability.
- R11 Continue actively to support the government PFM reform programme (the PRGB) and in particular, its transformation into a fully-fledged sector strategy for PFM reforms.
- R12 Ensure full alignment of IPs' technical assistance and support to PFM reforms behind the PRGB and the emerging PFM reform sector strategic framework.
- R13 As part of this, explore the implications for support to PFM reforms at sectoral and decentralised levels.
- R14 Reform/decentralise institutions to cope with higher levels of service delivery.
- R15 Explore the scope for mechanisms enhancing coordination of capacity development initiatives across the board, encompassing the various dimensions noted in this report

(policy formulation, PFM, service delivery, monitoring and evaluation) and the various agents in and outside of government – and in particular, clarify the expectations from, and role and limits of, the WB ACBP.

- R16 Ensure full consistency of the design of individual IP's PGBS programmes with the CGAB-CSLP provisions including the agreed joint performance assessment matrix and review mechanism.
- R17 Design new PGBS operations with a view to satisfying the CGAB-CSLP call for multi-annual commitments as soon as/to the extent possible.
- R18 Review the necessity of targeted modalities for HIPC.
- R19 Generally, analyse the scope for targeted support versus PGBS.
- R20 Establish an all-inclusive forum/mechanism for regular discussion/consultation embracing all aid modalities and instruments.



## MALAWI EXECUTIVE SUMMARY

### Part A: Context and Description of PGBS

#### Introduction and Conceptual Framework

1. Malawi is one of seven case studies in a joint evaluation of General Budget Support (GBS). Each country study has contributed to the Synthesis Report of the evaluation, but is also intended to be a free-standing report of value to country stakeholders.
2. Although the evaluation focuses on more recent Partnership GBS (known as PGBS), it covers the period from 1994–2004 in order to assess whether and how PGBS differs from other variants of budget support. This is not a comparative evaluation of different aid modalities, although the assessment of PGBS requires examination of its interactions with project aid and other forms of programme aid.
3. The joint donor approach to evaluation recognises that PGBS has to be evaluated as a whole, since it is not possible to separate out the effects of different financial contributions. However, there is a special interest in comparing various different approaches to the design and management of PGBS.

#### The Context for Budget Support to Malawi

4. Malawi was (and remains) a highly aid dependent country throughout the 1994–2004 period. The share of external resources of total state budget receipts fluctuated between 33% and 57%, with project-tied aid constituting the main external source of funding. Following Malawi's first multi-party elections, the new government took office in May 1994. This led to significant increases in commitments by many bilateral donors and, gradually, several of these established representative offices in the country in order to promote closer dialogue and monitoring of their expanded country programmes.
5. GBS to Malawi during the 1994–2004 period is, from a public finance perspective, a source of non-earmarked funding for the state budget. While donors have gradually shifted their definitions and terminology for aid instruments, the Malawi government has consistently considered all non-earmarked funding directly (transfers in the form of counter-value from balance of payment (BOP) support) or indirectly (debt relief freeing up other resources for general funding of the budget) as budget support although using the label "BOP" rather than BS.
6. A key issue when evaluating GBS to Malawi has been the track records of successive governments in maintaining fiscal discipline since 1994. During 1994, in the run-up to the country's first multi-party elections, the overall fiscal deficit almost tripled – to 15% of gross domestic product (GDP). In 1998/99, the deficit reached 5.1% of GDP. From 2001 until the current government took office in July 2004, fiscal expenditure overruns have increased further year by year, with fiscal deficits of 8% of GDP in 2001 and 12% of GDP in 2003.
7. There are three different periods through which the donor–donor dialogue and donor-government dialogue related to GBS can be described:  
*In the period 1994–1999*, the International Monetary Fund (IMF) and the World Bank led the dialogue with the new government, emphasising macro-stabilisation, trade liberalisation and structural reforms, in particular those related to privatisation of state enterprises dominated

by the previous political regime. In addition, the dialogue following public expenditure reviews (PERs) centred on allocation of public resources for pro-poor expenditure (PPE).

*From 2000–2004*, more emphasis was placed on public finance management and on support for Malawi's Poverty Reduction Strategy (MPRS), which was introduced in 2000. A covenant for continued balance of payments support/budget support from several donors was based on performance under the Poverty Reduction and Growth Facility (PRGF) with the IMF. The donors increasingly linked their GBS specifically to performance in public finance management and the implementation of MPRS. During this period, a group of donors established a working arrangement under the name of the Common Approach to Budget Support (CABS), which initially included UK, Norway, Denmark (who subsequently withdrew from Malawi), and Sweden with the European Commission (EC) joining later. This period was marked by suspension of budget support following non-compliance with PRGF conditions.

*Since July 2004*, when a new government took office, a staff monitored programme (SMP) with the IMF resulted in a gradual building of more trust with Malawi's external partners. During this period, some of the GBS donors jointly developed a Performance Assessment Framework (PAF) and introduced a joint framework agreement with the Government of Malawi (GOM). Some of the donors have released previously suspended GBS as an incentive in the new government's efforts to implement fiscal management measures. (Subsequently the IMF has restarted a PRGF.)

8. In this study, the GBS provided through the CABS group which is specifically linked to supporting the implementation of the MPRS, is defined as Partnership GBS (PGBS). Disbursements of PGBS-type budget support began in 2000/01, but were suspended in 2002/03. In the first two years, PGBS was equivalent to between 5% and 10% of GOM's expenditure. In 2003/04, PGBS restarted with flows equivalent to 2% of Government of Malawi expenditure, rising to 4% in 2004/05. At its peak in 2001/02, PGBS still represented only 12% of total ODA (official development assistance)

## **Part B: Analysis of PGBS**

### **Main Evaluation Findings**

*The design of PGBS in Malawi responded to the local context but was inevitably risky.*

9. Since the mid-1980s, GBS in Malawi consisted of non-earmarked budget support for the state budget from a number of donors. The donors who ventured into the joint working arrangement of CABS (in the context of this evaluation labelled PGBS) in the early 2000s all had experience and knowledge of the local situation in Malawi. The design of PGBS was thus fairly well adjusted to the evolving, financial and economic, social, political and institutional context.

10. The initial "design" of PGBS, with its focus on the MPRS, could be questioned in the light of the history of policy implementation and weak fiscal discipline by the GOM. This history raises the question of whether PGBS was appropriate for Malawi. The answer to this depends upon how risks were assessed before PGBS was undertaken and how they were dealt with. The underlying analysis recognised risks mainly in terms of the financial, political and economic circumstances and their likely developments. However, efforts to mitigate the risks were primarily focused on fiscal management rather than on political risks. In the risk analysis, political risks in terms of commitment and policy priorities were relatively understated, while positive signs of progress were often overstated. Since the 2004 election, the design has been adjusted to respond to the evolving context.

*Was it the right decision to go ahead with PGBS in Malawi?*

11. A key question is whether the eventual poor fiscal performance should (or could) have been anticipated. It may be claimed that, given Malawi's poor history of fiscal management, one could have expected that it would not be able to meet PGBS conditions. On the other hand, it would have been difficult to foresee the significant further deterioration in fiscal discipline that occurred.

12. Although the original CABS rationale did not emphasise PGBS funds acting as an incentive to leverage commitment, some donor officials were subsequently surprised that senior politicians acted in a way that risked receipt of what were significant funds. One commentator has noted:

They [the donors] saw fit to go ahead with budget support despite their knowledge of the weaknesses of the system – this involved a more or less conscious decision to engage in wishful thinking. Perhaps the lesson to be learnt ... is the dilemma facing donors where the poverty of populations demands donor support, but the dysfunction of governments makes it unlikely that even minimal management conditions will be met ... Aid officials are rarely politically naive, but may lack instruments to confront this dilemma. (Brian Van Arkadie, Personal Communication.)

13. There are three possible interpretations of the subsequent problems with PGBS in Malawi:

- First, that Malawi failed to meet some absolute minimum entry standard on public finance management or other capacity.
- Second, that the appropriate decision-making process was one of weighing up the risks and benefits. In such a scenario, some failures are inevitable but do not necessarily reflect poor decision making.
- Third, the problems in Malawi were not due to inappropriate entry conditions but to the subsequent support given.

14. These three interpretations are, of course, not mutually exclusive. There are indications that the risks were understated and that, as a result, some minimum standard was not met. Perhaps more could have been done to help build capacity, although, throughout the period 1994–2004, a number of donor efforts had been made in this regard with limited success. Ultimately, whether the appropriate decision-making process should have a minimum threshold cannot be determined from a single case.

15. The findings of the Malawi case study do suggest that political governance is a key entry condition for PGBS. Analysis of the appropriateness of PGBS must include political analysis as a basis for its design, in addition to fiscal management reviews and assessment of public finance management capacity. The intentions of the government with respect to sound financial management and poverty reduction need to be established rather than assumed.

16. The second issue is to reemphasise the general observation that conditionality is neither a substitute for, nor does it promote, ownership. This has clearly been the case in Malawi, where PGBS was supposed to promote reform in public finance management and other governance systems. The assumed incentives associated with PGBS were not effective in Malawi. PGBS may have created expectations of sustained non-earmarked donor inflows but, when suspended due to non-compliance with conditionalities, there were no sustained measures by the government to control expenditure. On the contrary, expenditure continued to far exceed budget ceilings, despite the shortfall in PGBS receipts. The result was an accumulation of increased domestic debt, increasing debt service costs and adverse effects on private investment and prospects for growth.

17. The dialogue should be supported not only by fiscal reviews and assessments of performance measured by quantitative and qualitative targets, but also by analysis of two of the key entry conditions: political governance and commitment. Providing general budget support to a country with a long history of weakness in managing even its own domestic resources is not likely to lead to improved public sector performance. The objective of designing appropriate conditions and procedures for support will require analysis of the political system and processes, combined with dialogue at the levels of the political leadership and civil society, as well as at executive and administrative levels.

18. Embarking on a PGBS process – with multiple process, output and outcome targets in support of ambitious poverty reduction policies – is unlikely to achieve the intended results where political governance, ownership and limited capacity are the binding constraints to policy implementation.

### **Harmonisation and Alignment**

19. The 2001–2004 PGBS by the CABS group represented a more closely coordinated effort among the donors. It served as a joint working arrangement to harmonise reviews and provide one, rather than several, avenues for Malawi government/donor dialogue. CABS has been the vehicle for improved dialogue and coordination.

20. There have been some improvements in alignment with Malawi government policy instruments, including the MPRS, although these instruments are at an earlier stage of development. There is, however, a question of the extent to which it is possible to align meaningfully with weak systems.

21. While the CABS PGBS has led to one coordinated dialogue with respective donors, the funding from each of the donors has been guided by separate bilateral agreements. These reveal that the donors have maintained different emphases, conditions and triggers for the release of funding (e.g. not all donors required the government to have a PRGF programme with the IMF). The CABS group can thus be said to have created a joint working relationship for improved coordination of the donor/government dialogue, but did not achieve full harmonisation of conditions linked to the support.

22. In 2005, the CABS donors agreed on a common Performance Assessment Framework (PAF) to serve as a tool for review of government performance in implementing MPRS and public finance management measures. The various CABS donors, however, plan to use the PAF benchmarks differently. While they all intend to use PAF as a joint framework for review, the focus on each of the benchmarks differs. Some will apply the benchmarks for reviewing performance, while others will also use them as specific triggers for the release of funds. Different donors will also make use of different sub-sets of the indicators. Accordingly, the PAF appears as the sum of individual donors' preferences rather than a prioritised set of benchmarks equally shared by all.

### **Public Expenditure Performance**

23. The impact of GBS on public expenditure levels has been limited during the pre-2004 period. There has been no improvement in fiscal discipline, the potential positive effects on the cost of financing the budget, and on the transaction costs of aid have been restricted by the suspension of GBS. The transaction costs of PGBS itself have been low; but project funding has continued as the dominant donor approach. Thus the aggregate transaction costs of aid have not declined.

24. Donors have been concerned to protect pro-poor expenditures (PPE) and this concern probably contributed to keeping a floor on such expenditures throughout the period of macroeconomic instability, though there was no shift towards PPEs away from non-PPE spending. Within this, PGBS donors played a part, but this contributed to an overall effect driven as much, if not more, by considerations for IMF PRGF conditionality and for HIPC as well as by other non-PGBS donors. Predictability of funding has been weakened by the interaction of donor conditionality and GOM fiscal indiscipline.

### **Planning and Budgeting Systems**

25. Considerable efforts by donors to support improved planning and budgeting systems during the period 1994–2004 have shown limited results. Major work on Medium Term Expenditure Frameworks (MTEFs) and on an Integrated Financial Management Information System (IFMIS) has provided little in the way of concrete results. This is reflected in the underlying problems of fiscal discipline. However, some progress was made during the 2000–2004 period on establishing an improved legal basis for public finance management.

26. Since 2004, the changed political environment has led to an improvement in the planning and budgeting systems. This was facilitated by the earlier assistance. PGBS donors contributed to this effort, but significant support from non-PGBS donors was probably more important. PGBS donors have, however, been particularly significant in working on domestic accountability and transparency systems, most notably in anti-corruption where they are the key external financial partners of the Anti-Corruption Bureau (ACB).

### **Policies and Policy Processes**

27. PGBS has not contributed significantly to improving public policy processes and policies. Some progress on specific measures – such as legislation in public finance management and related fields – was achieved, but PGBS was only a partial contributor to this, and the impact of the changes was limited during the period up to 2004.

28. PGBS has not significantly influenced the overall reform process in terms of ownership, participation and learning. Similarly, there has been little influence on policy content in terms of the balance between the public and private sector and the relationship between individual sector policies and public expenditure plans.

29. The increased focus more recently on supporting political processes, in particular parliament and its oversight function, may result in improvements in fiscal discipline and increase “political ownership” of agreed policies. However, it is too early to assess the outcome of these interventions.

### **Macroeconomic Performance**

30. When reviewing policy reforms and fiscal discipline during 1994–2004, it is clear that some progress was made in terms of the structural reform measures agreed with the IMF and the World Bank during 1994–1999. However, lack of fiscal discipline has been evident throughout the period, with a significant increase in expenditure over-runs in the period 2001–2004 – which coincides with the period of PGBS.

31. The situation limited the actual release of PGBS compared to commitments, which caused the fiscal situation to deteriorate further. Suspension of PGBS was not followed by sustained measures by the government to control expenditure. On the contrary, expenditure continued to exceed budget ceilings, despite shortfalls in PGBS receipts. The result was an accumulation of increased domestic debt and increasing debt service costs. This process led to a further crowding-out of private sector investments and, subsequently, GDP growth rates were far below projected levels. The underlying cause of these perverse effects on macroeconomic performance was the government's poor fiscal performance, which led the CABS donors to suspend PGBS which, in turn, further worsened the situation. (Perverse in the sense that they are contrary to the positive effects postulated in the enhanced evaluation framework for PGBS.)

### **Service Delivery**

32. The education and health sectors were considered by the study in relation to service delivery. Given the suspension of PGBS for the majority of the period, it was not possible to trace any discernible impacts of PGBS upon improvements in service delivery.

33. The provision of services in both sectors in Malawi is at a very low level. There are substantial problems in delivery, and both have acute human resource problems associated with the HIV/AIDs pandemic. The few improvements observed are attributable to vertical programmes supported by project-tied aid and efforts by non-governmental organisations (NGOs).

### **Poverty Reduction**

34. It is not possible to reach conclusions on whether there has been any impact on poverty from PGBS. This is due to the limited funding of PGBS but, more importantly, to the time lags involved in discerning possible impacts and the absence of appropriate trend data.

### **Sustainability**

35. There is a moderate degree of learning by the Malawi government and its international partners, which has adjusted the PGBS approach in the light of experience. However, this learning process is mainly one of separate rather than shared learning. The adjustment has been concerned with inputs, conditionalities and dialogue rather than implementation and impact levels. Feedback to stakeholders beyond the Malawi government has been limited.

36. Post-2004, the Malawi Government and politicians have learned that the donors' sanction of suspension of PGBS is real, while the donors have appreciated that a more limited objective is perhaps more appropriate for continued PGBS in the circumstances. And that suspension needs to be managed well, especially in the short term, to avoid fiscal shocks. While the focus on this "new" PGBS is on macroeconomic stability, the rationale is to prevent the potential poverty impacts of a severe economic crisis. Thus the long-term view is an optimistic one in which PGBS can play a positive role. This means that PGBS is being used in a similar way to the programme aid of the mid-1990s, where it focused on basic stabilisation measures and fiscal performance, rather than on the range of issues addressed in the MPRS.

## **Part C: Cross-Cutting Issues**

### **Cross-Cutting Issues**

37. Overall, this evaluation has found only a limited relationship between the cross-cutting issues and PGBS. However, both gender – in terms of relevant education and health indicators – and HIV/AIDs were explicitly included as indicators in the performance assessment framework (PAF). Human rights and democracy are discussed in donor-government relationships and

influenced some donors' decisions over suspension in the 2001–04 period. Environmental issues – despite their importance – were not included.

38. The focus on the public sector has caused a relative neglect of the private sector in donor strategies. This is, however, a general donor issue rather than a PGBS-specific issue. Government capacity is limited and remains a major constraint.

39. PGBS has been associated with capacity building and targeted technical assistance, but other donors have continued to provide similar inputs. PGBS has not had any discernible influence on corruption. The CABS donors have, however, consistently supported the Anti-Corruption Bureau (ACB) which, under the new regime (post-2004), has shown itself to be proactive and seems to be receiving high-level support.

40. Direct evidence of impacts on political governance is absent. However, there are some signs that PGBS created an environment and incentives for the post-2004 government to improve fiscal discipline, in return for a resumption of stable PGBS flows.

## **Part D: Synthesis – Overall Conclusions and Recommendations**

### **Assessment and Future Prospects of PGBS in Malawi**

41. The full logic of the framework for this evaluation, with assumed positive links between one level and the next, has not been tested in the case of Malawi, due to frequent suspensions linked to lack of compliance with conditionality. However, some positive immediate effects are observed (Level 2) from inputs (Level 1) in the form of harmonisation and alignment as well as some complementary capacity-building measures. For the reasons already discussed, there are few visible positive effects beyond Level 3. There are few significant changes at all in terms of service delivery (Level 4) and those that are observed can, for the most part, be attributed to vertical programmes supported by project-tied aid and NGOs rather than PGBS. Changes in poverty levels cannot be assessed due to the absence of reliable information (Level 5).

42. PGBS has been restarted following the change of government in 2004. With signs of improved governance and fiscal discipline, the prospects for the more limited aims of this new PGBS are promising. This reflects donors treating PGBS as a medium to long-term obligation.

### **Main Recommendations for Malawi**

#### **Political Governance and PGBS Design**

- R1 The assessment of whether to go ahead with PGBS should be based on an assessment of political governance and an additional commitment to reviews of fiscal performance and public finance management capacity.
- R2 Political governance and commitment are key issues to address, along with reliable public finance management systems and capacity for effectiveness of PGBS.
- R3 More effort by donors and the Malawi government needs to be put into capacity development of GOM systems, to enable real leadership on aid coordination.
- R4 More effort is needed by donors and GOM in developing policy formulation and implementation.

#### **Harmonisation**

- R5 Continued effort is required to make PGBS a vehicle for improving harmonisation for a wider group of donors.

#### Use of Conditionality

- R6 When designing PGBS conditionalities and sanctions, donors need to consider carefully the impact of suspension of PGBS on macroeconomic stabilisation, and to the extent possible, make a gradual reduction in the medium term rather than completely withdraw in the short term.

#### Predictability and Donor Commitment

- R7 The impact on predictability in the short term can be mitigated by disbursement arrangements which provide for suspension only in the medium term. Conditions should be fully harmonised, with full transparency on conditions for release.
- R8 Where donors undertake PGBS in difficult policy contexts (like Malawi), they should commit medium to long term.
- R9 Donors need to make clearer the relationship between conditionalities on PGBS and their commitment to other aid programmes.

#### Monitoring and Use of Indicators

- R10 Monitoring of PGBS, linked to outcome of PRGF, requires a baseline and effective monitoring system prior to, or in early stages of, the PGBS arrangement if performance-based monitoring with output and outcome targets is to be applied meaningfully.
- R11 Donors should use process rather than outcome indicators as triggers for disbursement.

#### Feedback

- R12 Donors and the government need to strengthen their processes of mutual learning.
- R13 Donors and government should strengthen feedback to all stakeholders including parliament and civil society.



## **MOZAMBIQUE EXECUTIVE SUMMARY**

### **Part A: Context and Description of PGBS**

#### **Introduction and Conceptual Framework**

1. Mozambique is one of seven case studies in a Joint Evaluation of General Budget Support (GBS). The finance in GBS is usually accompanied by other inputs – a process of dialogue and conditions attached to the transfer, technical assistance and capacity building, and efforts at harmonisation and alignment by the GBS donors. Other forms of programme aid, including debt relief and other balance of payments support, may also be considered as budget support when they generate resources that can be used to finance the government budget, but this evaluation concentrates on so-called “new” or “Partnership” GBS (PGBS). This focuses explicitly on poverty reduction, and it attempts to support nationally developed strategies rather than imposing external policy prescriptions.

2. Although the evaluation focuses on Partnership GBS, it covers the period from 1994–2004 in order to assess whether and how PGBS differs from other variants of budget support. The purpose of the evaluation is to assess to what extent, and under what circumstances, GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The Mozambique study followed the same methodology as the other country cases, working through “levels of analysis” from the entry conditions at the point that GBS was adopted, to the inputs made by GBS, their immediate effects, outputs, outcomes and impacts on poverty reduction. The analysis in each chapter is according to the **evaluation questions** shared by each country team; assessments against these questions are highlighted in the text below.

#### **The Context for Budget Support in Mozambique**

3. From the beginning of the liberation war in 1964, Mozambicans experienced nearly 30 years of violent strife, social and political disruption, and economic crisis. Under pressure of civil war, the infrastructure of governance disintegrated. In large parts of rural Mozambique, schools and health posts were destroyed and teachers and nurses evacuated. Around 37% of the population lost their homes, were displaced or became refugees. Since the peace settlement in 1992, the country has undergone a period of almost uninterrupted growth of around 8% per annum. This has reduced the level of absolute poverty from 69% of the population in 1996–97 to 54% in 2002–03. However, high rates of poverty, poor health indicators and high illiteracy rates persist.

4. The state apparatus that was to address these problems was poorly resourced in several senses: a very small tax base, a centralised but vertically fragmented administration, antiquated management systems, exceedingly low levels of educated and trained staff, and a weak legislature and judiciary.

5. Mozambique's aid dependence peaked during the civil war period at 87% of gross national income (GNI) in 1992 – the year of the Peace Agreement. By the late 1990s it had fallen to below 30%, but in 2001 donor support still accounted for more than half of total public spending and about two-thirds of public investment. Official aid disbursements stabilised at about USD 1,000m a year during the period 1992–2004.

## **The Evolution of Partnership GBS in Mozambique**

6. Collaboration in PGBS grew out of a long history of coordination between a “like-minded” group of donors and collaboration with government through the civil war period. Two rounds of Heavily Indebted Poor Countries (HIPC) debt relief from 1996/97 and the approval of the Poverty Reduction Strategy Paper (PRSP, or PARPA in Mozambique) in 2001 enabled the conditions for donor alignment on an agreed poverty reduction strategy. The bilateral donors began to formulate plans for a common programme of GBS in 1998. The International Monetary Fund (IMF) switched its loans from an Enhanced Structural Adjustment Facility (ESAF) to a Poverty Reduction and Growth Facility (PRGF) agreement aligned with the PARPA from 1999; and from 2004 the World Bank began to give Poverty Reduction Support Credit (PSRC) credits aligned with the PARPA and the bilateral donors' budget support programme.

7. Coordination of GBS was agreed in 1999 and formalised in 2000 as a “common framework agreement” in a Joint Donor Programme for Macro-Financial Support between the government and bilateral donors. An original group of six donors rapidly expanded to 10 in 2002, 15 in 2004 and 17 in 2005, including the World Bank. With regard to policy conditionality, the agreement required the government to prioritise poverty reduction according to the PARPA. While GBS was the focus of the agreement, it also embraced other forms of programme aid and, specifically, sector support.

8. In response to a banking crisis in 2001 and associated violations of human rights, in 2002 some donors temporarily withheld disbursement. In the face of the damaging effect of unpredictability on macrofinancial management, the government asked that the conditions for disbursement should be set out more transparently. This led to the redesign of PGBS in a Memorandum of Understanding (MOU) which set out the objectives, basic principles and commitments on the part of government and donors, processes for reporting, monitoring and dialogue, dispute resolution and disbursement processes. It led to the establishment of a Performance Assessment Framework (PAF) as the shared instrument for dialogue, as the basis for assessing government's performance and for deciding donors' commitments for the following year. It committed the Programme Aid Partners (PAPs) to align with government systems, to make their funding predictable, to strengthen domestic accountability, and to expose their own performance to a donor accountability framework – the Programme Aid Partners' Performance Review.

9. GBS increased from about 2.7% of net official development assistance (ODA) in 2000 to about 14.1% in 2003 and 18.6% in 2004. However, the growing importance of PGBS does not mean that any other form of aid has disappeared. For most donors, PGBS remains a complement to other forms of programme and project aid. The Government of Mozambique (GOM) has made it clear that it favours more programme aid up to the level of two-thirds of all aid, but has not specified how programme aid should be distributed between sector and general budget support.

## **Part B: Analysis of PGBS**

### **The Relevance of Partnership GBS**

10. All the design elements of GBS anticipated in the Enhanced Evaluation Framework (EEF) are present in the Mozambican case: significant funding, harmonisation and alignment, policy dialogue, conditions, technical assistance and capacity building. Chapter B1 suggests that the technical assistance (TA) and capacity building are the weakest elements in this otherwise very strong case.

11. Donors assessed the readiness of the government for such a programme on the basis of its macroeconomic performance, public finance management, foreign exchange management and public sector reforms. There was no separate analysis of the wider country context beyond government, nor of why budget support might be better than other aid modalities at addressing poverty in this context. The focus of the analysis leading to the Agreement was largely technical.

12. An elaborate system of joint reviews timed to coincide with the government's budgetary cycle has been created backed by an organisational structure of thematic and working groups which include non-member observers – IMF, African Development Bank (AfDB), United Nations (UN), USA and Japan. The group contains a variety of shades of commitment to PGBS and to other forms of programme and project aid. The review of government performance is matched by an annual review of international partners' performance according to the 2004 MOU.

13. The donors that joined later were affiliating to a club with its own existing rules. Whether their contributions were large or small, whether they were principally committed to project, sector or general budget support, and whether they were sceptical or committed to GBS, the Programme Aid Partnership was an inclusive forum that gave them voice. The evaluation does not adopt the view that smaller contributors are simply “buying a seat at the table”. It suggests that the GBS design in Mozambique has been successful in responding to the priorities of different donors and, perhaps, in advancing their own national aid policy and the decentralisation of aid management to country offices.

14. The **government's priorities and ownership of the process came to be more fully represented** in the redesign of the Joint Programme that occurred from 2002. The jointly agreed PAF consisted of policy actions and performance indicators drawn from the government's poverty reduction strategy and from proposals made by line ministries about indicators that were relevant to their sector. They were also strongly influenced by donor officials, including those operating in sector ministries, in drawing up the shortlisted indicators.

15. The broad conclusion is that the original **design of PGBS is relevant** to the national context and led to the creation of **a framework that has allowed it to broaden its policy and poverty focus** and to increase government's participation. This sort of partnership could not have emerged through project aid and did not develop under structural adjustment programmes; while there have been earlier forms of donor–government collaboration, none has been so institutionalised.

### **Effects on Harmonisation and Alignment**

16. The broad pattern since 1994 has been for aid management first to become more concentrated in sector ministries and then, increasingly, in the Ministry of Planning and Finance (MPF). The late 1990s saw the emergence of donor pools and sector-wide approaches in the ministries of health, agriculture and education. Line ministries continue to be important focuses of both sector and project aid. However, sector support arrangements are increasingly being brought on-budget and GBS is strengthening MPF's responsibility for financial management.

17. There are carefully worked-out procedures for harmonisation between the G17 donors, and these arrangements also involve all other large donors and international agencies as observers. The World Bank moved from observer status to full membership in 2004, and in 2005 adopted the PAF matrix as the basis to “trigger” its PRSCs. The IMF has harmonised its PRGF programme. Indeed, the level of harmonisation of GBS donors may be a cause for concern for the government. Apart from general concerns about the power imbalance, there is the specific possibility that they all might act together in withholding aid. However, it is now at least as likely

that the risk works the other way: the consequences of joint non-disbursement would be so catastrophic for the government and country that such action would never be taken.

18. Approval of the 2001–05 PRSP (PARPA) by the IMF and the World Bank in September 2001 provided the formal basis for donor alignment on a governmental poverty reduction strategy, and facilitated the first donor agreement to coordinate budget support. While the PARPA is the formal basis of long-term strategic alignment, the G17 partners have now also aligned themselves through the government's own annual planning processes – the economic and social plan (PES) and the targets in the Performance Assessment Framework (PAF) that is reported with the PES to parliament. This is seen by government and donors as a major advance towards alignment and national ownership

19. The PGBS funds, review process and dialogue have been fundamental in elevating the status of the MPF as a focal point for national planning, though the sector ministries retain a high degree of autonomy owing to their links with aid agencies. PGBS has also had an important role in developing common instruments of planning and prioritisation both within government and between government and donors, and in working through the government's own systems of cash management, procurement and audit. **It has thus strengthened governmental systems and leadership.**

20. PGBS has developed mechanisms for **harmonisation and alignment that have been very effective** in practice; the mechanisms of dialogue and shared conditions have been more important than the funds, except that the latter are the precondition for the former. It is very unlikely that this level of harmonisation and alignment could have occurred through any other aid instrument.

### **Effects on Public Expenditures**

21. PGBS has had a **positive effect in increasing the proportion of public expenditure subject to the national budget.** Moreover, policy dialogue and conditionality are highly focused on key public policy and public expenditure issues and priorities.

22. Budget allocations to priority (“pro-poor”) sectors were already high and increasing before PGBS existed. Through policy dialogue and conditionality, **PGBS has supported this governmental prioritisation**, and allocations to priority sectors have grown roughly in proportion to the State Budget as a whole. However, increasing the resource envelope subject to the Budget has not had the effect of changing the pattern of budget allocation further in favour of pro-poor expenditure. This assessment should be qualified by the fact that, owing to deficiencies in budget classifications, it is not possible to be sure exactly how funds have in fact been spent. Moreover, a significant part of public expenditure (mostly aid-funded) is “off-budget”. PGBS has had **a moderately positive effect in increasing the efficiency of public expenditure**, particularly in improving the balance of recurrent to capital expenditure. Current reforms (including SISTAFE – the Integrated System for State Financial Management) are likely to lead to improved budget execution rates.

23. PGBS is one of the few aid modalities which put funds truly “on-budget”; even some basket funding to support sector programmes is still subject to its own disbursement and accounting procedures. However, PGBS disbursements have tended to be unpredictable (whether within the year or even into the next financial year, and over-disbursing and under-disbursing within the year) and hence to have short-run destabilising impacts, contributing to inflationary financing. Over the period, **PGBS funds have become more predictable** as the disbursement problem has been acted upon with a commitment to multi-annual donor

agreements and growing alignment with the government's budget. The dialogue linked to PGBS has been heavily focused on the improvement of public finance management (PFM) systems. Fiduciary risk in Mozambique remains high and ratings against Public Expenditure and Financial Accountability (PEFA) criteria are low, but the government is committed to a reform agenda to reduce the level of fiduciary risk and strengthen PFM systems. Nonetheless, the situation is exacerbated by the huge amount of off-budget funds provided by, among others, the same donors who provide PGBS.

24. There have been **transaction costs** associated with the transition to PGBS and the development of the new partnership structure, but many of these “start-up” costs will exhibit positive externalities in the longer-term – for example, improved coordination between MPF and line ministries, strengthened monitoring and evaluation systems, and better safeguards against the misuse of funds, which could lead to improvements in domestic accountability.

25. The transaction costs of managing aid are now incurred more heavily by MPF, but without any significant reduction in the costs to line ministries owing to the continuation of other aid modalities. However, disbursement through the budget should represent lower transaction costs for GOM since it is able to use its own procurement and disbursement procedures.

### **Effects on Planning and Budgeting Systems**

26. Budgeting and planning in Mozambique suffer from systemic weaknesses: input-based budgets cannot be related to plans; the state budget which covers most recurrent costs is disconnected from much investment funding which is largely funded directly by donors operating at sector and provincial level; and, there are weak linkages between approved budgets and actual expenditure.

27. Partnership GBS has been influential on planning and budgeting, not only through its funding but also through the focus of dialogue on the national budget and shared policy objectives. It supports changes in the relationship and reporting lines between core government and line ministries, and between line ministries and donors. In that sense, it has had a **moderately positive effect in increasing core governmental ownership** of the budgetary process, by which we mean ownership that permits planning by government as a whole, rather than by government at the level of particular sectors or activities. However, this should be qualified by the fact that donors have themselves become more involved in the core processes and policies of government, possibly to an extent that is detrimental to national ownership, especially where governmental capacity for policy analysis, budgeting and implementation is weak.

28. The changes in the systems of **budgeting and planning are beginning to be internalised** throughout the government system. The budgetary process is beginning to be adjusted to support a more coordinated and directive government strategy. Officials in sector ministries perceive a change in the nature of the inter-ministerial dialogue. However, they share a concern about the speed of the transition from a situation where they had some control of donor funding (since it was allocated directly to the sector or to sector projects) to one where funds are channelled directly through the national Treasury.

29. All the weaknesses characteristic of the budgetary process in Mozambique are also inhibitions to democratic accountability. Above all is the fact that a large part of public expenditure is off-budget and therefore not subject to comprehensive parliamentary scrutiny or national audit procedures. Although some large donor projects are subject to parliamentary approval, this is on a piecemeal basis rather than as part of the review of budgetary allocations. Most donors will subject their projects to external audit, but the audit is according to donors'

requirements rather than those of the national government and parliament. The scope for parliamentary accountability has increased to the extent that the state budget has grown as a proportion of all public expenditure, and that a higher proportion of donor funds has been brought into the state budget. Bringing donor funds on-budget has increasingly become a policy issue taken up by PGBS partners. While **instruments of domestic accountability remain weak, we found that they were becoming stronger** with the support of PGBS.

30. While key ministries are now planning and coordinating more closely with MPF, the links remain weak. This is partly a problem of the gap between the experience of staff in different ministries – MPF staff having a focus on finance and line ministries staff on sector issues. However, the problem relates also to the **weak capacity** of government to attract and retain good staff. In the absence of qualified staff, ministries have depended heavily on short-term technical assistance. There are current proposals to address planning and financial management capacity through pooled donor support to government.

### **Effects on Policies and Policy Processes**

31. The Mozambican policy process is focused on central government line ministries with a high degree of vertical control, strongly influenced by donors, and with low levels of civil society participation. Access to donor funding at sector and provincial level has enabled government to avoid hard choices about resource allocation between sectors.

32. In the earlier years, PGBS dialogue through the Joint Review process initially focused on the internal working of government and public finance management and on the assessment of progress on poverty reduction and economic growth. Since 2003, the agenda has broadened to cover practically all aspects of government and donor policy that could be relevant to the poverty reduction strategy. While this places heavy demands on government, PGBS has had a **positive effect in establishing and maintaining a comprehensive reform policy increasingly owned by government** and in developing systems of dialogue, review and monitoring that constitute **an effective learning process**.

33. One of the major areas of attention of donors and government has been reform of the financial sector, especially since the banking crisis that came to a head in 2001. Through the Joint Review and working groups, some attention has also been given to reform of the business environment and the agricultural sector. PGBS is increasingly oriented to private sector development but until now **issues of market failure have been weakly pursued**, by comparison with social sector policies.

34. Policies and reforms at sector level were not initially covered by the Joint Review process, although it supported the government's commitment to maintaining the share of the priority sectors (including education, health, infrastructure and agriculture) at 65% of total government expenditure. Line ministries became much more directly involved when in 2003 it was decided to draw up a Performance Assessment Framework on the basis of which donors would determine their funding commitments to GBS. PGBS has had a **moderately positive effect on the development of sector policies**. It has not so much contributed to new social sector policies as added more open and collective pressure to meet service targets and carry out promised reforms. It has probably had most distinct (though not yet great) policy influence in the legal and judicial sectors, which had previously received relatively little attention except from individual donors. The greater attention to the legal and judicial sectors followed a banking crisis and associated human rights violations that occurred at about the same time that PGBS was becoming established.

35. PGBS has brought about policy dialogue that is more focused on policy priorities, more cross-sectoral and **more inclusive of stakeholders** than previously existed. More donors are involved, including non-GBS donors, and government has increased ownership of the Joint Review process. Sectoral line ministries (and in future provinces and districts) have increasing levels of participation. This has not displaced the donor–government dialogue at sector level but has reinforced pro-poor policies by subjecting them to wider scrutiny. Non-official involvement – politicians, legislators and civil society – is restricted but growing.

### **Effects on Macroeconomic Performance**

36. There are limits to the impact of PGBS on macroeconomic performance in a situation where monetary policy remains within the policy domain of the IMF and the country is regularly exposed to shocks such as floods and droughts. In addition the country was affected by a banking crisis during 2001/02, which worsened fiscal discipline in two out of the five years that PGBS has been provided. However, **PGBS has made a moderately positive contribution to improving fiscal discipline**, in particular by supporting IMF conditionality and increasing the volume of resources available to the national budget, which contributes to the transparency of public expenditure. Ultimately, improvement in fiscal discipline depends on the Government of Mozambique's own commitment to achieving targets.

37. While a more favourable macroeconomic environment has largely been achieved (except for interest rates), this is more a product of monetarist policies linked to the IMF and supported by PGBS donors. **PGBS has contributed to reducing the cost of budget finance** by making new and free sources of finance available to the budget, allowing government to spend on its own priorities. While PGBS initially presented problems of late and unpredictable disbursement which obliged the government to issue treasury bills to cover its expenditure, this problem has reduced as donors have committed to multi-year agreements and more predictability.

38. We found that, on balance, **PGBS has not adversely affected private investment** and may have had a positive effect. Although late disbursement may have increased the costs of borrowing in the earlier years of PGBS, more recently disbursement has become much more predictable. PGBS made available funding that reduced government's need to borrow to recapitalise the banks, thus helping to resolve the banking crisis. High levels of external assistance do not appear to have stifled private sector growth through exchange rate appreciation. With regard to **institutional restructuring** many of the first-generation reforms associated with market liberalisation had already been largely achieved, but PGBS has supported the conditions for stable macroeconomic management and the government's public sector reform programme. However, **reforms in areas important for private sector growth such as the judicial and regulatory environment have lagged**.

39. We found no evidence of an overall adverse effect by PGBS on **the generation of domestic revenue**. Revenue mobilisation has been a pillar of PGBS dialogue and conditionality and is monitored by the Joint Review; however, performance remains below target.

### **Effects on the Delivery of Public Services**

40. Service funding and delivery were rising before PGBS existed. In a country where at least 50% of public spending was financed by aid throughout the period 1994–2004, it is unimaginable that the rapid recovery from civil war and the growth of service delivery could have been achieved without aid. Through most of this period, project aid and then increasingly basket funding at sector level were the modalities of support. Many government officials at sector level (health, education and agriculture) and some donors (and, in the case of many donors, some

sector-focused officials) would argue that sector support is the most efficient way of getting aid through to service delivery. Some fear that quickly expanding GBS could put these gains at risk by breaking established lines of financing and over-stretching the capacity of MPF. Sector support is likely to continue but needs to be brought on-budget, so that allocations under state and sector budgets can be made rationally, on the basis of a comprehensive view.

41. The G17/government Joint Review dialogue is based on GBS but embraces sector aid, promoting coherence between them. Ultimately, PGBS offers the possibility of achieving integrated cross-sectoral prioritisation and implementation, which is not achievable otherwise. PGBS's contribution to the improvement of service delivery has not been to invent new policies nor to create previously unasserted targets, but to maintain support for policies and targets already agreed at sector level. We assess it as having had a **weak but positive effect on service delivery and service responsiveness**. It has not added new funding but redirected some of it to flow through the national budget, following PARPA commitments and probably achieving higher rates of budget execution. This has enabled it to strengthen those policy commitments by making them a matter of collective donor and government agreement. The fact that PGBS funds go through the state budget in principle encourages rational allocation within and across sectors by exposing them to transparent monitoring, and improving the link between plans, budget allocations and execution. Although the mechanisms remain weak, PGBS has supported the reform of financial accounting, procurement and performance assessment.

#### **Effects on Poverty Reduction**

42. The main poverty reduction policy in Mozambique since 2000 has been the government's PRSP (PARPA). While this has been adopted as the basis of policy alignment for all forms of aid, PGBS is the only aid modality that directly provides financial support for the implementation of this strategy by the government itself (as opposed to specific sectors of government). PGBS dialogue has also contributed to the evolving structure and quality of the poverty reduction approach since it focuses on reforming PFM, improving domestic accountability, and maintaining high levels of social sector spending. Both the PARPA and PGBS have given less attention to addressing deep-seated problems of territorial inequality and enabling the development of rural production and employment opportunities.

43. Between 1996/97 and 2002/03, there was a spectacular fall in the incidence of poverty as measured by consumption from 69% to 54% of the total population. This represents an extraordinary reduction in six years. As a result, the poverty reduction target as set out in the PARPA has easily been reached. Socio-economic indicators show a reduction also in non-income poverty, in respect of access to education and health services. However, the HIV/AIDS prevalence rate is very high and increasing rapidly. Poverty reduction has been larger in rural than in urban areas, but territorial inequalities remain very high.

44. High and sustained rates of economic growth have been the principal contributors but PGBS can claim to have made a **small contribution to the reduction of income poverty** through its effect on macroeconomic stability and government spending. PGBS is given on the basis that the recipient government has an established strategy to spend public funds on prioritised sectors with the overarching objective of engendering pro-poor GDP growth and resulting reductions in poverty levels. PGBS has served to increase the proportion of funds subject to the national budget and, backed by policy dialogue and (agreed) conditionality, has had a **modest effect in extending access to basic services** in all the PARPA priority sectors.

45. If PGBS has had an effect on the empowerment and social inclusion of poor people, it will have been indirectly through its contribution to growth, employment, income, service delivery, promotion of anti-corruption measures and reform of the justice sector. PGBS and



associated processes have emphasised accountability of public finance management and created instruments (particularly the PAF) for assessing service delivery. It is not possible to say whether any of this is experienced by poor people, but is likely that its **effect so far on their empowerment is weak.**

### **The Sustainability of PGBS**

46. Previous sections conclude that PGBS has aligned on and helped to build the sustainability of government systems, has developed a sustained dialogue with government, and has had a broadly positive impact on policy processes, macroeconomic management and service delivery. This section considers whether there are “feedback loops” built into PGBS that allow learning and adjustment to changing realities. PGBS in Mozambique has certain characteristics: (a) it is a product of learning and evolution out of other forms of aid, (b) it is led by bilateral donors, (c) it is the principal definer of membership but the partnership embraces other forms of programme aid, and (d) it has an elaborate organisational structure and systems of review. Indeed, its formality and scale could present risks:

- to donors: of difficulty in accommodating different donor stances, and of the capacity of government systems to absorb budget support;
- to government: of incapacity to match donor organisation, and of donors acting in concert to withhold aid.

However, we judged the partnership to be sustainable.

47. There are numerous and **strong processes of shared learning** between government and donors, with flexible mechanisms for adjusting to experience and for maximising complementarities between different forms of aid. These run through all levels of the evaluation framework from the design, to periodic reviews of the partnership, and joint reviews of government and donor performance against agreed targets. The report suggests that a more conscious effort could be made to consider the advantages of different aid modalities.

48. **Learning processes have been strong in relation to the flow of funds, institutions and policies.** The level of PGBS funding has been sufficient to engender a well-structured dialogue which has been the main instrument of learning in regard to institutions: the development of the framework for the donor partnership and harmonisation, government–donor alignment, and performance assessment, and reforms in financial management and at sector level. The Joint Review has more often supported sector-level policies and reforms than made them. However, where the drive for reform is weak (e.g. the judicial sector and HIV/AIDS) the Joint Review has sometimes taken a lead.

49. **Learning processes have been extended to a widening group of stakeholders,** including donors with different degrees of commitment to GBS, sector ministries of government and non-governmental actors. However, the participation of the legislature and of civil society organisations remains weak.

### **Part C: Cross-Cutting Issues**

50. The report distinguishes between policy (or “outcome”) cross-cutting issues (CCIs) and governance (or “process”) issues. The first set of CCIs came fully on to the PGBS agenda in 2003 when the agreement with the government was revised to include: gender, environment, HIV/AIDS and human rights. The second set is of issues that concerned PGBS from the outset – the public–private relationship, decentralisation and capacity building, ownership and conditionality, transaction costs, corruption, and accountability. It was to address some of these issues that PGBS came into being.

51. PGBS has had an impact on CCIs in three main ways:
- coordinating and giving collective impetus where previously donors were working separately with government: e.g. on conditionality, decentralisation, and potentially on capacity building;
  - making links where themes are shared across sectors but had previously been encapsulated sectorally: e.g. the public–private relationship, HIV/AIDS, gender, and corruption;
  - pressing for implementation where formal policies, rights and legislation are in place but the implementation of reform is weak: e.g. human rights, gender, decentralisation and potentially the environment.

52. Policy-related CCIs:

Most of these issues came on to the PGBS agenda only in 2003 when the agreement between government and international partners was revised:

- Gender: Women have strong formal rights and political representation. However, in the sphere of economic participation and in terms of access to service and justice, women and girls remain disadvantaged. An active gender working group is pursuing these issues within the Joint Review process.
- Environmental legislation is strong but practice is much weaker. PGBS and the Joint Review have dedicated little attention to environmental matters.
- HIV/AIDS: A national cross-sectoral strategy has existed formally since 2000. The PGBS Joint Review process has been an important means for making this a reality by asserting the case for a cross-ministerial approach to prevention and treatment.
- Human rights are strongly established at a formal level, but less so in practice, particularly in regard to the performance of the courts, prisons and police. The Joint Review has given collective impetus to the pursuit of legal and judicial reforms.

53. The second set of CCIs concern governmental arrangements and their relations with international partners and the private sector:

- Public and private sector issues: Until recently, PGBS has given little attention to strengthening private sector development and instead concentrated on developing the public sector apparatus. Since 2003, the business environment and the productive sectors have been given more attention and we judge this to be a necessary adjustment.
- The government is following a policy of gradual decentralisation, but this is still mainly a matter of administrative deconcentration. The Joint Review is seeking to engage more directly with reform at provincial and district level, and with linking the activities of bilateral donors at local level.
- Technical assistance and capacity building: Capacity in government is weak and capacity development in core institutions of government has been largely fragmented and projectised, including by PGBS donors. There are important examples of jointly funded capacity-building for public finance management generally and MPF in particular (SISTAFE being the prime example), and donors now plan a co-financed sector-wide financial sector development project to begin in 2006.
- Ownership, in the sense of the strengthening of cross-sectoral national systems over which government exerts collective control, has increased under PGBS with donor–government agreement on shared conditions. Our conclusion is that the PGBS form of shared conditionality, in which policy targets are agreed between government and partners through dialogue, makes for enhanced governmental ownership.

- Interplay between aid modalities: The PGBS dialogue is characterised by a relatively high degree of integration with other aid modalities. Sector support and sector policies are being brought increasingly into PGBS forums and being assessed using a common assessment framework.
- PGBS has initially increased transaction costs to government due to new dialogue requirements, new conditionalities, and unpredictable flows of PGBS funds. These costs may now be decreasing as government has adjusted and donors increasingly work through government systems. PGBS reduces the transaction costs of implementation, since regular government procurement and accounting procedures are used. However, the persistence of other aid modalities reduces the net positive effect.
- PGBS has supported national processes of democratic accountability, by bringing aid on-budget, exposing it to parliamentary and public scrutiny, and contributing instruments of performance assessment. But these mechanisms of accountability remain weak.
- Corruption has remained a problem but PGBS has increased donors' concern about fiduciary risk, and the Joint Review process is now pressing the government to make progress on anti-corruption, audit and judicial reform.

## **Part D: Synthesis – Overall Conclusions and Recommendations**

### **Overall Assessment of PGBS in Mozambique**

54. Our broad conclusion is that this has been a very successful case of donor–government collaboration, and that PGBS has contributed positively to conditions for economic growth and poverty reduction.

55. We found causality effects running right through the levels of analysis. They were more general, clearer and stronger (rated medium to strong) at Levels 0, 1, 2 and 3, in:

- the strong and evolving relationship between PGBS's design and the country context;
- harmonisation between a large number of partners and their increasing alignment on national systems;
- PGBS's increasing contribution to the proportion of public expenditure that goes through a growing state budget;
- its effects in strengthening planning and budgeting systems, policy processes, and macroeconomic performance.

56. Positive but generally slight and uncertain effects were discernible with regard to service delivery, responsiveness and access, to the reduction of income poverty and to the empowerment of poor people. However, while there were positive effects running through the chain, there were also weaknesses scattered throughout it. This not to say that the hypothesised causality links were false, but that either PGBS design or the national response have been inadequate. The main weaknesses in performance against the criteria adopted by the evaluation were in:

- Level 2: TA and capacity building; predictability of PGBS funding (though this has improved since 2003);
- Level 3: Domestic accountability;
- Level 4: Policies addressing market failure and private sector development; administration of justice and respect for human rights.

## **PGBS in Mozambique – Future Prospects**

57. This chapter summarises the arguments that lead to the main practical lessons we derive from the Mozambican experience, and indicates what possible actions might support the future development of PGBS. The issues we identify are:

- the strong design and organisation of PGBS which has shown a capacity for flexible adaptation but which may need to develop a more conscious strategy for the management of change;
- effective arrangements for harmonisation and alignment but which therefore present risks to both government (of combined donor action) and international partners (of being locked into a collective view);
- PGBS's contribution to the strengthening of public finance management while at the same time requiring yet further improvements in the predictability and scheduling of donor disbursements;
- the paradoxical balance between improved planning, budgeting and domestic accountability as both preconditions for and outcomes of PGBS;
- the case for a more planned and coordinated approach to the development of government's capacity to plan, budget and develop policy as well as the donors' capacity to support these;
- PGBS's support for a more coherent approach to the development of cross-sectoral policies but its relative neglect, at least until recently, of policies and institutions that do not involve major commitments of public expenditure;
- PGBS's support for improved macroeconomic management but the need for more attention to the productive sectors in government's and donors' strategies;
- the effectiveness of PGBS dialogue in collectively supporting the development of service delivery, but the case for a more conscious strategy for deciding the appropriate role of alternative aid modalities;
- the fact that PGBS's effect on poverty is so far small but positive.

## **Summary of Conclusions and Recommendations**

58. This chapter presents a matrix of the findings and conclusions of the Mozambique study, leading to recommendations which we present for the consideration of domestic and international stakeholders in the PGBS process in Mozambique. The main recommendations can be grouped by the focus of attention: aid strategy between government and donors; donor performance; government performance; civil society's engagement; the private sector and growth:

Aid strategy:

- R1 Design a shared strategy for the development of programme aid in parallel with government capacity.
- R2 Consider the advantages of different aid modalities and how each might be used.
- R3 Develop an aid strategy that specifies government's objectives with regard to different aid modalities.
- R4 Maintain commitment to bringing aid on-budget as financial information systems improve.

Donor performance:

- R5 Develop donor capacity to support policy analysis, planning and budgeting.
- R6 Continue to improve predictability and scheduling of intra-year and inter-year disbursements and release greater levels of funds in the first quarter of the year so as to combat cyclical tax revenue fluctuations.

- R7 Consider whether and how international partners can give graduated response to government performance.
- R8 Consider further how to minimise pressure on key government officials' time in the annual Joint and Mid-Year Reviews.
- R9 Adopt a strategy of giving the government progressively more “space” to develop and implement its own growth and poverty reduction approach.

Government performance:

- R10 Develop a pooled programme for TA and capacity building in policy analysis, planning and budgeting.
- R11 Give skewed territorial distribution of budget expenditure more prominence in dialogue.
- R12 Support phased development of programme budgeting.
- R13 Give greater priority in dialogue to impact of growth on domestic revenue and decreasing dependence on aid.
- R14 Address the concerns of line ministries about the insecurity of their lines of funding in the transition to PGBS.
- R15 Maintain pressure to focus and implement strategies in areas of HIV/AIDS and the justice sector.
- R16 Consider whether and how environment should be more strongly addressed through PGBS.
- R17 Prepare cross-ministerial positions prior to engagement with donors in Joint Review dialogue.
- R18 Maintain Joint Review pressure for measures against corruption.

Civil society's engagement and accountability:

- R19 Develop a strategy for enhancing accountability with Parliament and Poverty Observatory.
- R20 Maintain Joint Review pressure for measures against corruption.
- R21 Maintain pressure to focus and implement reform of the justice sector and audit systems.

The private sector and growth:

- R22 Enhance emphasis of dialogue and conditionality on banking, legal and judicial sector reforms.
- R23 Strengthen international partner dialogue with government on rural employment generation.
- R24 Strengthen international partner dialogue with government on the business environment.
- R25 Consider support for non-state provision of public services.



## **NICARAGUA EXECUTIVE SUMMARY**

### **Part A: Context and Description of Partnership General Budget Support**

#### **Introduction and Conceptual Framework**

1. Nicaragua is one of seven case studies in a Joint Evaluation of General Budget Support (GBS). Budget support is a form of programme aid in which Official Development Assistance (ODA) that is not linked to specific project activities is channelled directly to partner governments using their own allocation, procurement and accounting systems. GBS (in contrast to sector budget support [SBS]) is not earmarked to a particular sector or set of activities within the government budget. The finance in GBS is usually accompanied by other inputs – a process of dialogue and conditions attached to the transfer, technical assistance and capacity building, and efforts at harmonisation and alignment by the GBS donors. Other forms of programme aid, including debt relief and other balance of payments support may also be considered as budget support when they generate resources that can be used to finance the government budget, but this evaluation concentrates on so-called 'new' or 'Partnership' GBS (PGBS). This focuses explicitly on poverty reduction, and it attempts to support nationally developed strategies rather than imposing external policy prescriptions.

2. Although the evaluation focuses on PGBS, it covers the period from 1994–2004 in order to assess whether and how PGBS differs from other variants of budget support. The purpose of the evaluation is to assess to what extent, and under what circumstances, PGBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The Nicaragua study followed the same methodology as the other country cases, working through 'levels of analysis' described in an Enhanced Evaluation Framework (EEF), from the entry conditions at the point that GBS was adopted (Level 0), to the inputs made by GBS (Level 1), their immediate effects (Level 2), outputs (Level 3), outcomes (Level 4) and impacts on poverty reduction (Level 5). Each chapter addresses the evaluation questions shared by each country team. Because, in Nicaragua's case, PGBS is very recent, there has not been enough time for PGBS in Nicaragua to have reached Levels 4 and 5 of the EEF. Given this, the evaluation also considers the future prospects.

3. The main benefits from PGBS are expected to derive from reinforcing countries' ownership, enhancing the performance and accountability of partner governments' public finance management systems, minimising transaction costs and increasing the predictability of resources and reducing volatility. This study examines these themes as well as assessing the extent to which other effects occur, such as increased harmonisation and alignment, strengthening of policy and processes, supporting macroeconomic stability and increasing the efficiency and effectiveness of service delivery.

#### **Context for Budget Support in Nicaragua**

4. Nicaragua is heavily aid dependent. The country received an average of USD 801m a year in ODA during 1994–2004 and the annual average of ODA/gross national income (GNI) during 1994–2004 was 21%. ODA amounts to around one quarter of its gross domestic product (GDP), or around 50% of its deficit in the current account.

5. The relationship changed between the Government of Nicaragua (GON) and international partners (IPs) during the period 1994–2004 as dialogue opened up from a mainly macroeconomic focus to include poverty reduction and governance issues. This change was influenced by the Heavily Indebted Poor Countries (HIPC) initiative and the Poverty Reduction Strategy Paper (PRSP) process. Nicaragua arrived at the decision point of the HIPC initiative in

December 2001 and the completion point in January 2004. The size of debt forgiveness obtained meant that the HIPC initiative played a crucial role in driving the pace of institutional reform carried out by GON in a relatively short period. Meeting the conditionality of the HIPC initiative has been of vital importance in ensuring that the preconditions for the disbursement of PGBS exist in Nicaragua.

6. As a precondition of HIPC, the first version of the Poverty Reduction Strategy Paper (I-PRSP) was approved in August 2000 and the full PRSP known as the ERCERP (*Estrategia Reforzada de Crecimiento Económico y Reducción de la Pobreza*) was approved in 2001. The new Bolaños administration presented the National Development Plan (PND – *Plan Nacional de Desarrollo*) to IPs in August 2003 and in September 2004 the operational version of the National Development Plan (PND-O – *Plan Nacional de Desarrollo Operativo*) covering the period 2005–2009. (The final version of this document was approved as the second generation PRSP by the World Bank [WB] Board in February 2006.) With the new Bolaños administration there has been an important shift in GON's poverty reduction strategy (PRS) from the initial focus on social expenditure for poverty reduction, to sustained economic growth through support to local development and productive clusters with interventions aiming at human capital development, protection of vulnerable groups, and building public institutions and governance.

7. While the HIPC-driven reforms served to bring traditionally conflicting institutional and political forces together, in recent years there has been a progressive deterioration of the relationship between the Executive and the National Assembly, and in 2005 President Bolaños was in an isolated political position, with the National Assembly using its political power to slow down the pace of structural reforms. This has knock-on implications for GON management of aid relationships, since International Monetary Fund (IMF) on-track status and disbursement of the Poverty Reduction Growth Facility (PRGF) depend on the legislation of these reforms. Throughout the period, the status of the IMF programmes has always been of central importance. The on-track status of the GON with the IMF is used by IPs (either formally or in practice) as the key reference point in their decision to disburse funds. The latest IMF programme, PRGF 2, was signed in 2002 with conditionalities linked to the ERCERP, macroeconomic stability (in particular the fiscal deficit) and a number of key reforms in the financial, public, and legal sectors.

### **Evolution of Partnership GBS in Nicaragua**

8. Partnership GBS as defined by this evaluation is very new in Nicaragua. Since 2002 the Bolaños administration has undertaken reforms in Nicaragua's aid management and coordination based on the implementation of sector roundtables and the development of sector-wide approaches (SWAs). The international aid coordination forum started discussions on the necessary preconditions for providing sector and general budget support in 2003, fuelled by the HIPC and PRSP process, the signature in 2002 of the IMF PRGF 2 and the growing consensus that the highly earmarked, fragmented and supply-driven character of aid in Nicaragua was hampering impact and sustainability. The key initiative by IPs on the development of GBS in Nicaragua took place in 2003 with the formation of the Budget Support Group (BSG) as the IP forum for discussing budget support. With rotating leadership, this group has involved a wide group of bilateral and multilateral IPs. Current members include: the European Commission (EC), Finland, Germany, Inter-American Development Bank (IADB), the Netherlands, Norway, Sweden, Switzerland, the United Kingdom (UK) and the World Bank (WB).

9. Disbursements of the first PGBS programmes started with Sweden's provision of GBS in 2002. The EC and the WB then also provided GBS in 2004; the WB Poverty Reduction Support Credit (PRSC) and the EC Programme of General Budget Support for the Education Sector (PAPSE – *Programa de Apoyo a la Política del Sector Educativo*). The first formal harmonised



arrangement was agreed mid-2005, when the Joint Financing Arrangement (JFA) developed by the BSG was signed by nine IPs and the GON. The JFA lists commitments/pledges from IPs for 2005–2007 which amount to a doubling of GBS funds from USD 63m (11% of total ODA) in 2004 to approximately USD 110m (18% of total ODA) in 2005. In October 2005 the commitment of PGBS for 2005 reduced to USD 89m. IPs are providing PGBS in substitution for, rather than in addition to project aid; thus there is an increase in the proportion of aid committed as PGBS rather than an increase in the overall total amount of aid given by IPs. The JFA incorporates the existing Swedish, EC and WB programmes, and also includes two other EC programmes and other bilateral commitments. The JFA establishes the mechanisms for dialogue, review, disbursement and reporting, and includes a Performance Assessment Matrix (PAM).

10. In 2005, as of June no funds had been disbursed from either PRSC or PAPSE, except for USD 5.2m from KfW (German Development Bank – *Kreditanstalt für Wiederaufbau*) linked to the first PRSC instalment. On 29 June the BSG communicated to the Ministry of Finance (MHCP – *Ministerio de Hacienda y Crédito Público*) that it was not in a position either to decide on the amount expected to be disbursed for 2005 or to make preliminary indications for 2006 (as JFA procedure establishes), owing to the existing lack of on-track status with the IMF. The BSG also indicated that the paucity of adequate information regarding the programme with the IMF could lead IPs to reallocate their funds to other countries. As a result, the second JFA review, originally foreseen in August, was postponed until after the new mission of the IMF scheduled for September. After the IMF September review took place, the BSG communicated to GON the amount of PGBS funding to be made available in 2005 and the commitments for 2006.

## **Part B: Main Evaluation Findings**

### **Relevance of Partnership GBS**

11. Both the assessment of results achieved under the HIPC process (with the HIPC completion point achieved in January 2004) and the signature of the IMF PRGF 2 in 2003 were crucial signals that the country was going in the right direction and that GON could be eligible for PGBS. They were combined with the election of Bolaños as President at the end of 2001. His commitment to end corruption, his previous involvement in the main public sector reforms and the launch of a partnership dialogue with the IPs were judged as a sufficient guarantee of the continuity of the reform process undertaken since the 1990s that had deepened under HIPC influence.

12. Entry condition assessment included a vast array of public finance management and risk analyses. While these reported the fragility of recently introduced reforms and highlighted important weaknesses, overall they confirmed that the minimum conditions for the development of PGBS were in place. Furthermore, several key donor assessments of the effectiveness of aid in the 1990s highlighted the negative experience of previous aid modalities (particularly project aid): the inefficiency, the limited impact on poverty reduction and economic growth and the disruptive effects on strengthening of national government institutions. These evaluations recommended a move towards programme-based aid modalities and a country-owned approach. International movements in favour of increasing aid effectiveness through aid harmonisation and alignment with recipient government systems were also important influencing factors in the Nicaragua country context of high transaction costs and lack of donor coordination.

13. PGBS development is to be seen against the counterfactual. Comprehensive support to the national development policy and the government could not be realised by the traditional structural adjustment approach or project aid, while support at sector level alone would not ensure inter-ministerial links and coherence between the macroeconomic framework and sector policies.

14. However, the analyses carried out in preparation of PGBS underestimated the role of Nicaragua's institutional and political fragility for the feasibility of a systemic approach to reforms and did not sufficiently take on board the lessons from the recent history of aid. The relevance of the design of PGBS in Nicaragua is moderate.

15. There has been progress in the evolution of the earlier forms of PGBS to the current JFA in the following areas: joint conditionality, harmonisation of review mechanisms, promotion of sector policies, use of nationally established coordination mechanisms and alignment with the PND strategy for poverty reduction. However differences in approach are still significant, particularly with regard to the link between conditionality and disbursement, the type of indicators and the use of technical assistance.

16. Although there is no doubt that the current development of PGBS can be defined as the result of a partnership, there are reservations on the effective quality of this relationship based on the current type of dialogue, conditionality and ownership. So far the dialogue has been conducted with the traditional partners of the Executive, with little inclusion of other state stakeholders such as civil society, the National Assembly and representatives of local governments. There are still a large number of conditions associated with this dialogue. Conditionality is still more like previous efforts to influence and control the content of decisions than a real reflection of the principle of national ownership of the development process. The conditionality requires a degree of "reform absorption" capacity which contrasts with the fragile social, political and institutional context of a country like Nicaragua which is still in the process of democratic transition. In addition, using the IMF agreement as a pre-condition in practice for all PGBS disbursements limits the flexibility of PGBS dialogue, which by definition embraces more than solely the economic and public finance context. Furthermore it reduces the effectiveness of the JFA as a partnership instrument since the dialogue becomes highly influenced by an IP (the IMF) which is not part of the BSG and is not a signatory of the JFA.

17. The Performance Assessment Matrix (PAM) annexed to the JFA is a key element of the planned mechanism for establishing the amount of funds to be disbursed. While it is already a success in terms of harmonisation, it is considered a 'work-in-progress' and requires development. The PAM as it stands at the moment primarily serves the interest of IPs rather than being a GON instrument. This is due to the excessive number of indicators, the lack of GON capacity in many of the sectors covered, and because it is not embedded in the national monitoring system (SINASID – *Sistema Nacional de Seguimiento a Indicadores de Desarrollo*).

### **Harmonisation and Alignment**

18. Since the Bolaños government entered into power, GON has taken more initiative in aid coordination; however, by the end of the evaluation visit there was no finalised national action plan for harmonisation and alignment. There is a harmonisation and alignment group (GON and IPs) which has developed a zero draft action plan that was presented at the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) High Level Forum 2005 (Harmonisation and Alignment Group 2005). Since then, it has been working on an action matrix, to be agreed by the end of 2005. The May 2005 draft harmonisation and alignment action plan promotes the implementation of national policies with specific actions that relate to the use of PGBS and the JFA.

19. Both GON and IPs are actively promoting a best practice harmonisation and alignment agenda. The BSG and the JFA provide the coordinating framework for the provision of PGBS so increasing the harmonisation and alignment of IPs. The JFA has added the European bilateral agencies to the traditional International Financial Institutions–GON policy dialogue.

However, there have been limited achievements in practice. The JFA was only signed in May 2005 and therefore changes to IPs' practice will take longer to be seen.

20. Factors slowing overall progress in harmonisation and alignment are the size of project aid in total compared to GBS and the fact that influential large donors (Japan, IADB, Spain and USAID) are operating outside the JFA. Most significantly, while the JFA is coordinating IP dialogue and the overall approach to PGBS, the streamlining of conditionalities and indicators requires further work. At the time of the evaluation IPs had not harmonised on the diagnostics of fiduciary risk undertaken in Nicaragua. In addition there are no formal bridges with either SBS or project aid built into the JFA.

### Public Expenditure

21. Poverty-related public expenditure (PRPE) in Nicaragua was first defined in the first generation PRSP (the ERCERP) with capital spending related to four pillars of the strategy. The PND has redefined PRPE and from 2005 it was calculated by four criteria:

- 1) resources transferred to the extremely poor
- 2) provision of basic social services
- 3) programmes orientated to strengthen capacity of the poor to increase income
- 4) programmes to enhance expenditure efficiency in health, education and social sectors.

PRPE rose from 46.5% of public expenditure in 2003 to 48.1% in 2004, when it was equivalent to 12.7% of GDP.

22. There has been a noticeable increase in the proportion of external funds that are on-treasury in recent years following the 2001 establishment of the Single Treasury Account (CUT – *Cuenta Única del Tesoro*) and the strengthening of the Secretariat for Economic Relations and Cooperation (SREC – *Secretaría de Relaciones Económicas y de Cooperación*). By 2004 all aid loans and the majority of aid grants were channelled through the CUT and were therefore 'on-treasury'. However, this does not necessarily mean that all funds were 'on-budget' as the funds administered through the CUT include separate project funds. The channelling of aid through the public accounts at the implementation stage does not necessarily mean that it is integrated in planning and budget preparation. Also, a certain amount of funding (including the USAID Millennium Challenge Account and some JICA funding) remains outside the CUT.

23. The flow of PGBS funds is very recent, and requires caution in assessing effects. In 2004, the total amount of PGBS funds amounted to USD 62.6m – equivalent to 15% of central government capital expenditure and 5% of total central government spending in that year. This is equivalent to 10% of pro-poor expenditure. However, as PGBS is given more in substitution rather than in addition to project aid, this is primarily a re-badging of funds. While it is not adding significantly to the total envelope of donor resources, it is introducing greater flexibility in the use of these resources, with potentially important effects on the planning and budgeting system. Given the limited timeframe, while PGBS is bringing more external funds under the discretion of the national budget, it is too early to observe subsequent effects. It is also too early to tell whether PGBS is likely to lead to an increase in resources for service delivery. At the same time PGBS funds are affected by the constitutional earmarking of public expenditure. GON earmarked in 2005 10% of the public expenditure of the total budget (6% earmarked to universities and 4% to the Supreme Court) and 6% of domestic revenue which was transferred to the municipalities. The constitutional earmarking is a key structural rigidity which limits the discretion of the planning and budgeting process, the flow of funds to pro-poor expenditure and ultimately the effectiveness of the government's poverty reduction strategy. Some of the bilateral JFA signatories also provide support to poverty reducing public expenditure through the

Supplementary Social Fund (FSS – *Fondo Social Suplementario*), which in the past has been protected from constitutional earmarking but does not have the same principles of transparency and alignment with GON systems and mechanisms for planning and allocating resources.

24. In principle PGBS should increase the predictability of aid flows channelled through the official public expenditure system. However, there is a significant danger of a perverse effect if GON failure to meet conditions leads to short-term suspensions, or delays in disbursement, of PGBS, as occurred during the first half of 2005. It is important to highlight that thus far PGBS has not succeeded in increasing the predictability of aid.

### **Planning and Budgeting Systems**

25. Since the 1990s, donors have been supporting the improvement of planning and budgeting systems in Nicaragua. Beginning in 1995, the Integrated System for Financial Management and Auditing (SIGFA – *Sistema Integrado de Gestión Financiera y Auditoría*) has been gradually established in the MHCP. In 2001 the CUT was established, rationalising the hundreds of separate bank accounts previously maintained by the government. In 2003 the National System of Public Investment (SNIP – *Sistema Nacional de Inversión Pública*) was launched with the objective of improving the prioritisation of investment, linking to poverty reduction and development plans.

26. There is strong circumstantial evidence that the process of donor harmonisation and alignment that preceded the introduction of PGBS and the JFA (including the innovations stimulated by the HIPC initiative) contributed somewhat to improving government ownership and management capacity over planning and the budgetary process. PGBS can be seen as a continuation and reinforcement of the impetus initially derived from HIPC. Again, since substantial PGBS is so recent, improvements that can be attributed directly to PGBS by end-2004 are negligible.

27. There is evidence of a significant degree of complementarity between the financial and non-financial (technical assistance [TA], capacity building, dialogue and conditionality) inputs of PGBS in addressing capacity development. Several donors that signed the JFA are funding TA related to the implementation of PGBS. The WB Public Sector Technical Assistance Credit (PSTAC) is co-financed by bilateral JFA donors (the Netherlands, Sweden and the UK) while the EC provides TA support to the PND and seco plans to provide capacity-building support to the MTEF. However the fact remains that PSTAC – the main TA support associated with PGBS – is used primarily to pay the salaries of line ministry officers and senior level staff within the MHCP and SECEP (Secretariat of Strategy and Coordination of the Presidency – *Secretaría de Coordinación y Estrategia de la Presidencia*). Although it enables the GON to guarantee progress in the reforms by attracting well qualified staff, this approach is highly detrimental to the sustainability of capacity development and institutional strengthening. Resulting problems include: vertical lines of responsibility within government institutions, a distorted image of the size of the public sector administration and a high turnover of staff.

### **Policies and Policy Processes**

28. Since 2003 the BSG has been a GON counterpart in the dialogue over overall pro-poor reform process. The signature of the JFA, with the alignment of PGBS donors to the PND objectives, represents an important step forward from the dialogue in the context of HIPC and should allow increased country ownership.

29. However, despite an increasing ownership of the planning process, participation of other stakeholders in policy formulation has been limited in recent years, particularly with regard to

civil society and the dialogue with the National Assembly. By the time of the mission (May 2005) the contribution of PGBS in modifying this situation had been limited.

30. In June 2005 the PND-O was not yet finalised. There were still significant question marks over the content and philosophy of the plan, including a widely held view that the PND-O needed further consultation, understanding and buy-in by all involved actors. There are signs that PGBS hopes to influence the content of sector policies, as indicated by the fact that the PND-O has been extensively discussed with the BSG since its elaboration in 2004. Therefore, providing PGBS through the JFA offers IPs the possibility to influence the policy making process and content in a way that few of donors could have individually, particularly the bilaterals.

31. Since 2003 there have been improvements in government sector planning and aid coordination following the government initiative of creating sector roundtables. Progress is most noticeable in those sectors, such as education, where a SWAp exists and where the corresponding sector roundtable has worked effectively. PGBS is based on and is contributing to this overall coordination process, but at sector level, improvements can be attributed to overall aid rather than solely PGBS. The JFA harmonised review mechanism and commitment to joint evaluation should contribute to the learning process from sector and policy reviews and should increase the efficiency of sector working.

32. Given the recent history of PGBS in Nicaragua, there is a strong link between the content of policy in relation to the public administration reform (which is the main area of the PRSC and was already at the core of the previous WB loans) and the preparation of a MTEF (the focus of recent TA provided within the PGBS context).

### **Macroeconomic Performance**

33. It is too early to assess the impact of the recently begun PGBS financial flows. They have the potential to continue the macroeconomic stabilising effect of financial aid to the Bolaños government since late 2001.

### **Public Service Delivery**

34. The main challenge to the analysis is posed by the limited period covered by PGBS when compared to the time lag necessary to transform policies and institutions into better services and better service providers. The analysis concentrates on those policy aspects/areas supported by PGBS, particularly the participatory education policy.

35. Basic education in Nicaragua has been a sector that is of great interest to IPs and a focus of concern by GON as a priority area for reform. As a result, throughout the period 1994–2004, the sector has undergone a series of reforms and institutional capacity-building measures. PGBS has supported the implementation of autonomous schools, one approach to reform the sector. At the same time the institutional strengthening of the Ministry of Education (MECD – *Ministerio de Educación, Cultura y Deportes*) depends on the activities of many more donors than just the PGBS IPs and also on the strong leadership shown by the MECD through the sector dialogue (sector roundtables) and the SWAp.

### **Poverty Reduction**

36. Given the recent nature of PGBS in Nicaragua there has not been enough time for PGBS in Nicaragua to have reached Levels 4 and 5 of the EEF. The JFA PAM encourages a continuing commitment by the GON towards social sector expenditure aimed at non-income

poverty reduction. The link between PGBS disbursement and IMF conditionality, as spelled out in the JFA, ensures that PGBS will only be delivered in the context of prudent macroeconomic policy, itself a prerequisite for sustainable poverty reduction. PGBS is supporting empowerment approaches already under way (municipal decentralisation of education, autonomous schools etc) though the impact of such measures should not be exaggerated. Donors have also focused attention on improving accountability, citizen participation and the administration of justice by including governance, participation and justice as performance indicators in the JFA PAM. On the other hand, PGBS impact in these areas may be limited by the reduced attention to local government capacity development and the lack of a formal link between service delivery at the local level and the implementation of the decentralisation policy.

### **Sustainability of PGBS**

37. Compared to the review mechanism associated with the ERCERP and to the first programmes of PGBS, the JFA represents important progress: its biannual reviews should provide effective feedback to stakeholders and the single matrix for performance assessment (the PAM) is the first important output of the harmonisation process among IPs.

38. Nevertheless, the PAM design bears the mark of being a product of compromise due to the complexity of the harmonisation process undergone. It includes process, output and outcome and a few impact indicators, thus indicating an effort to create a monitoring system covering the full causality chain. However, the unbalanced use of different types of indicators across sectors and within each of them reflects the limitations of the design of the review system, the unfinished discussion about the philosophy behind the review system, the varying degrees of progress in the elaboration of sector policies, and the prevalence of donors' concerns rather than a systematic coverage of all stages of the chain. In addition very little attention is paid to the detailed monitoring of pro-poor expenditure flow of funds, to the development of very poor areas and to the use of indicators disaggregated by gender and vulnerable groups. Finally, the link between monitoring the on-going implementation of policies and evaluating the long-term results, i.e. linking the short term perspective to a medium–long term scenario is not covered by the current performance review system.

39. As it stands at the moment, there is the risk that the system primarily serves the interests of IPs (as a tool to measure performance and decide on disbursements) and that it becomes an additional performance assessment instrument as it is not embedded in the national monitoring system (SINASID).

40. So far there has been little thinking on how to incorporate key stakeholders such as civil society and the NA in the dialogue and review process, and for the time being the exercise remains with donor and central government actors, with little transparency and accountability towards the rest of the country.

41. Finally, the de facto link of PGBS disbursement with the IMF PRGF on-track status may (in the event of the PRGF going off-track and PGBS donors delaying the disbursement of PGBS funds) affect the flow of funds to sectors which provide pro-poor services but do not have a direct influence on the factors affecting IMF conditionality.

## **Part C: Cross-Cutting Issues (CCIs)**

### **Policy CCIs**

42. *Gender:* The PAM states as an aim the reduction of inequality between men and women and has some specific gender-focused indicators. *HIV/AIDS:* Two HIV/AIDS indicators are

included in the PAM, but little effort is made to ensure mainstreaming through policies and sufficient budget. *Environment*: Environmental problems are linked to overexploitation of natural resources and vulnerability to natural catastrophes. The PAM includes support to sector plans and the plan for rural development and water and sanitation. However there are concerns that the PND does not pay sufficient attention to urban pollution linked to rapid urbanisation. Furthermore, the PAM does not systematically relate environmental issues to the most vulnerable and poor groups. *Democracy and Human Rights*: The PAM includes an area on governance focusing on justice, human rights and citizen security and participation, a clear indication of the importance that PGBS donors give these issues in their partnership with GON.

### **Public and Private Sector Issues**

43. The JFA has embraced the overall approach of the PND and moved from an approach strongly oriented towards social services to an inclusion of a more balanced attention to social areas and the private sector. Structural reforms are supported through the incorporation of the PRSC trigger indicators in the area of public sector and public finance, and as part of the overall dialogue on the appropriate macroeconomic framework assessed through the satisfaction of the PRGF, which also includes structural reforms.

### **Government Capacity and Capacity Building**

44. The JFA, and in general, PGBS, fosters the use of government structures, especially at sector level, but limited attention has been paid to plans for capacity building and human resources development. The biggest TA in terms of budget provided in the framework of PGBS is the PSTAC, which provides an important amount of funds. However, the sustainability and effectiveness of TA and the state reform process supported by PGBS in general, will remain at risk until there is an open discussion on the necessary civil service reform and a GON human resources development plan is elaborated.

### **Quality of Partnership**

45. *Ownership*: The signature of the JFA should allow an increase in GON ownership of the development process, shown by the alignment of the JFA with the PND. However while GON's relationship with IPs is based in theory on the principles of partnership and trust, at best, the situation of PGBS in Nicaragua is ambiguous. In practice there is still some tension between government ownership of the process and IP dominance of the relationship. This is demonstrated by the high number of indicators framing the assessment of GON in the use of the JFA funds, and the still strong policy conditionality on macroeconomic/finance management issues. Also ownership requires strong leadership, coordination, management and organisation – capacities that not all the government departments enjoy. The fragmentation of Nicaraguan politics and administration, and the volatility reflected in the re-drafting of national strategies, inevitably limits the strength of national ownership. Furthermore, with a public debt representing 140% of GDP and foreign aid a high percentage of public expenditure, GON ownership is still greater in theory than in practice.

46. *Interaction between aid modalities*: The Nicaragua aid scene is characterised by a multitude of donors and the use of parallel aid modalities, though project aid is the principal modality. The sector roundtables are an important government initiative to coordinate the different aid modalities at sector level. However, the use of different aid modalities by the same donor does not always correspond to a clear use of an aid modality for a given objective or in a given sector. In the case of structural reforms and public expenditure management there is a strong synergy between the different modalities used by donors; while in contrast, the use of aid modalities is not coherent or coordinated in the area of local development and decentralisation. There is no bridging dialogue with non-PGBS donors foreseen in the JFA.

47. *Transaction costs*: With PGBS there are clear transaction cost savings for GON inasmuch as PGBS funds are disbursed entirely through GON systems without special procurement or accounting requirements for the donors. A reduction of transaction costs in the negotiation of aid and the monitoring of its use is not yet observable due to the limited share of PGBS in total aid and the strong persistence among PGBS IPs of using project aid too. There is a risk that, at least at first, transaction costs will shift in nature, rather than decrease, as PGBS requires high-level technical skills and time for negotiation and consensus-building, both in GON and IPs.

### **Political Governance and Corruption**

48. Governance (democratic accountability) has always been part of the theme of the donor dialogue with GON and is included in the key principles of the JFA but there is little evidence so far that PGBS has helped set the basis for either a more inclusive dialogue or an increasingly transparent and shared performance assessment system. ■

49. In spite of all the legal and administrative reforms, perception of corruption is high. The fight against corruption is one of JFA's fundamental principles, and is high on the political dialogue agenda. In the first annual revision of the JFA, IPs expressed their concern of the quality of the PAM's governance matrix and are pushing for a more extended anti-corruption strategy. The close dialogue between the PGBS IPs and the Executive has raised concerns among civil society actors that they are excluded from the discussion on key policies and reforms.

## **Part D: Overall Conclusions and Recommendations**

### **Overall Assessment of PGBS in Nicaragua**

50. PGBS in Nicaragua is still in a formative stage – so much so that it is too early for a proper retrospective evaluation. This is reflected in the necessarily limited findings on causality. At the same time, PGBS is taking place in a difficult context of:

- The institutional and political fragmentation of the Nicaraguan government.
- The limitations of both the government policies and the government systems which PGBS is meant to align with and support.
- The heterogeneity amongst IPs.

51. PGBS emerged from HIPC and from earlier programme aid, and effects to date are in many areas intermingled indistinguishably with these. As such PGBS is part of wider moves towards more coordinated and country-led aid management (roundtables, programme-based approaches etc). The systemic approach adopted by PGBS is also a direct answer to the need to reduce the past negative effects of aid on the country's institutional development and policy making process and is also an answer to national and international pressure for increased country ownership and leadership in the decisions over development policy and the reform agenda.

52. The PGBS effect that has emerged most clearly so far is the boost it has given to harmonisation among donors, from a very low base, and the resulting joint effort to evolve a design for PGBS which is increasingly relevant to its context. This is a positive, attributable effect which causes the overall assessment of PGBS in Nicaragua to be that it is a promising beginning to tackling deep-seated problems of aid in a difficult political environment.



53. The challenges it faces include:
- How to break away from the limitations of previous aid modalities.
  - How to move beyond excessive earmarking.
  - How to create a long-term approach.
  - How to align with national plans for growth and poverty reduction.

54. With its systemic approach embracing the key service delivery sectors and the core reforms related to governance, undertaking PGBS is an ambitious strategy in a country with the deep political divisions of Nicaragua. At the same time, it is an instrument that reduces some of the key inefficiencies of aid provided in the past. The overall conclusion is that PGBS is an appropriate instrument which needs to be seen as evolving to be understood in relation to the difficulties it faces in the context, and to be linked explicitly to strategies for other instruments.

### **PGBS in Nicaragua – Future prospects**

55. In making recommendations, this chapter deliberately avoids detail, for two reasons: (a) such detail is beyond the scope of our study, and risks obscuring the key strategic issues, and (b) there is a serious danger of overloading PGBS. We therefore offer design principles more than design details.

56. A number of general design issues arise:
- Partnership: A partnership with the Executive is not enough to allow the implementation of programmes addressing global reforms and overall development policy in an efficient and effective way when the Executive does not enjoy the support of the other state powers.
  - Priority to planning and budgeting quality: To date, planning and budgeting has received less priority for donors in PGBS than have fiduciary risk issues.
  - Unify monitoring of PND and PAM: Ensuring that donor monitoring of the PAM is embedded in the national government monitoring of the PND is important.
  - Staged approach to solving PGBS implementation problems: Achieving timely disbursement and reducing risk of PGBS suspension will require an ongoing exploratory joint effort to find solutions – not a set of conditionalities.
  - Capacity building of key departments in government: Integrating funding for technical expertise into PGBS; this is likely to involve revising the current structure of the civil service further so as to establish permanent professional civil service capacity in essential posts.

57. There are also a number of specific design issues that focus on how to develop the PAM. Our conclusion is that while the PAM is a step forward in harmonisation and alignment, its complex conditionalities reflect the inadequacies in the broader design of PGBS. The main weaknesses are the following:

- Little GON ownership and risk of running in parallel to the GON system of monitoring overall development policy performance.
- The stop-start pattern in programme aid to Nicaragua has been caused in part by how the on-track status with PRGF has been included in the review of the fundamental principles of the JFA (IMF is presently seeking ways to make its cautions regarding PRGF status less alarming to donors and this needs to be taken into account in the PAM).

- Much discretion left to individual donors, and unclear links between assessment and amount to be disbursed, with consequent implications for predictability of funds.
- Unresolved issues concerning the balance between input, output, outcome and impact indicators, and the appropriate use of different indicators as disbursement triggers.
- Very little attention in the PAM is paid to monitoring the flow of funds for pro-poor expenditure in detail.
- Indicators are seldom disaggregated by gender or vulnerable groups, which makes it difficult to conduct thorough monitoring and evaluation of impact on these groups.
- Despite the large number of indicators and areas covered, few refer to the institutional development efforts implicit in the reform agenda. The risk is that this process will not be factored into the overall performance assessment.
- Review results are shared only within a restricted circle of donors and central government despite the implications these have for the political economy of the country.

### **Recommendations**

58. There must be realistic expectations of PGBS: it cannot solve every problem or do everything at once. Issues are about priorities, risk management, and linking PGBS to wider poverty reduction and aid strategies. PGBS is an evolving instrument which should form part of an overall strategy for increasingly nationally owned and coordinated management of aid. Along with PGBS the overall strategy includes sector roundtables and programme-based approaches, all as part of the PRSP approach.

59. Hence our main recommendations are:

- R1 PGBS dialogue should involve a wider cross-section of the state (including local authorities) and civil society and thereby promote wider ownership.
- R2 There should be a more inclusive involvement of donors, to attain a critical mass of PGBS funding and a critical mass of donors committed to PGBS.
- R3 Donors and the GON should treat SBS, project aid and PGBS approaches as complementary, ensuring that sector modalities do not undermine development of national systems.
- R4 PGBS donors should forge clearer links to the IMF in relation to policy dialogue and performance assessment on structural and macroeconomic policies.
- R5 IADB participation in the BSG should lead to its policy-based loans and relevant TA credits becoming part of the JFA and their performance assessment made in the framework of the dialogue on PGBS.
- R6 Donors and the GON should further support the coherent planning of public services, investments and revenues, by putting it at the centre of PGBS, linked to a medium-term budgetary framework.
- R7 Donors and the GON should work towards a medium-term reform timetable.
- R8 Donors and GON should focus on the key institutional improvement of a stronger civil service (requires a national strategy that IPs can support, in which agreed systemic improvements supported by PGBS are complemented by technical assistance and capacity building).
- R9 GON, supported by donors, should integrate funding for technical expertise into PGBS via human resources plans for departments related to raising productivity.
- R10 The practice of paying GON staff with aid funds should be brought to an end.
- R11 Donors and the GON should seek convergence between PAM and PND targets.

- R12 Donors and the GON should support national monitoring and evaluation of both PND and PAM, with regard to annual progress and long-term results, spelling out results chains, increasing gender and regional disaggregation in indicators, and providing more harmonised capacity building in this area at sector and local levels.
- R13 Donors and the GON should review the definition of pro-poor expenditure, including discussion of constitutional earmarking.
- R14 Donors should avoid all-or-nothing disbursement of PGBS and revise the system of conditionality accordingly, making their criteria fully transparent to the GON.
- R15 Donors should reduce fragmentation of funding via the Supplementary Social Fund (FSS – *Fondo Social Suplementario*).
- R16 Donors need to improve commitment procedures to allow better budget planning by the GON.



## **RWANDA EXECUTIVE SUMMARY**

### **Part A: Context**

#### **Introduction and Conceptual Framework**

1. Rwanda is one of seven case studies in a Joint Evaluation of General Budget Support (GBS). Budget support is a form of programme aid in which official development assistance (ODA) is channelled directly to partner governments using their own allocation, procurement and accounting systems. It is not earmarked to a particular sector or set of activities within the government budget. This evaluation focuses on so-called “Partnership” GBS (PGBS), a relatively recent form of budget support concentrating on partnership, poverty reduction and support to associated national development strategies. Non-funding inputs accompanying budget support funds (dialogue, conditionality and provision of technical assistance and capacity building) are all expected to contribute to these objectives. Greater efforts at harmonisation and alignment by international partners (IPs) are also present in the “PGBS package”.

2. The Terms of Reference for the Evaluation state that:

The purpose of the evaluation is to evaluate to what extent, and under what circumstances (in what country contexts), GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The evaluation should be forward looking and focused on providing lessons learned while also addressing joint donor accountability at the country level.

3. Although the evaluation focuses on more recent PGBS, it covers the period from 1994–2004 to assess whether and how PGBS differs from earlier variants of budget support. The evaluation is based on a specially developed methodology applied to all seven country cases. It follows the Enhanced Evaluation Framework (EEF), which sets out the levels, the hypothesised links between them and other methodological tools that are fully described in the overall Inception Report (IDD & Associates 2005). It involves working through levels of analysis from entry conditions at the point where PGBS begins to the inputs made by PGBS (Level 1), their immediate effects (Level 2), outputs (Level 3), outcomes (Level 4) and finally impacts on poverty reduction (Level 5). It also pays attention to feedback between all levels, and to the interconnections between PGBS and other forms of aid.

#### **The Context for Budget Support in Rwanda**

4. Rwanda is a small and poor country with a profoundly tragic modern history. The 1994 genocide, and the fact that Rwanda came to the world’s attention belatedly and only after the events, are central to understanding the government–IP relationship and the broad context of GBS in the country.

5. There has been tremendous socio-economic progress since 1994. Indicators tell the classic story of socio-economic rebound after a major upheaval. Basic organs and systems of the state have been rebuilt from scratch. The country has its own “Vision 2020”, developed between 1998 and 2000, which the Poverty Reduction Strategy Paper (PRSP) of 2002 takes forward as a medium-term policy and planning framework. Rwanda has reached reasonable macroeconomic stability. Public finance management (PFM) systems have been restored and are continually being refined. The steady political transition initiated immediately after 1994 culminated in the adoption of a modern constitution in 2003. However, these achievements are fragile, the main potential threat residing in regional instability. Complete national reconciliation is also still a major challenge.

6. Rwanda is heavily aid-dependent. According to OECD DAC data, ODA was equivalent to 96% of gross national income (GNI) in 1994 and 54% in 1995, including a large component of emergency aid. Since then, annual aid inflows have averaged USD 340m per year, with emergency aid being progressively replaced by development aid. Between 1998 and 2003, ODA has been running at 17–20% of GNI, still a relatively high level. Given the national and regional context, aid is markedly political in Rwanda. Bilateral IPs continue to have divergent opinions on the political and governance conditions in the country.

### **Partnership General Budget Support (PGBS) in Rwanda**

7. Recognisable “Partnership” GBS emerged in Rwanda in 2000, in a context where aid coordination was gradually being brought under government’s leadership. The UK’s Department for International Development (DFID) in 2000 and the Swedish International Development Cooperation Agency (Sida) in 2001 were the first into the field, with operations replacing their support to debt relief. The European Commission (EC) in 2003 and the World Bank (WB) in 2004 followed. For the EC, the non-targeted Budget Support (BS) operation in 2003 followed two earlier, targeted BS programmes. For the WB, the Poverty Reduction Support Credit (PRSC) in 2004 followed the Institutional Recovery Credit, which itself had succeeded mixed adjustment/reconstruction programmes up to the late 1990s. Between 2000 and 2004, PGBS disbursements have totalled USD 248m, reaching up to 26% of total aid flows.

8. PGBS in Rwanda emerged at a time when the Government of Rwanda (GOR), with the early assistance described above, had succeeded in articulating its growth and poverty goals and in establishing the bases for the country’s further socio-economic development. In the complex political context of the time, PGBS was adopted by IPs who shared the philosophy articulated by the GOR. This philosophy emphasises the PGBS role in rebuilding government systems, institutions and processes, and its importance in reducing the transaction costs of managing aid in a resource-constrained post-conflict environment. On this basis, the PGBS IPs signed up to the Partnership Framework for Harmonisation and Alignment of Budget Support between the Government of Rwanda and its Development Partners in 2003 (Government of Rwanda and Development Partners 2003). So far, the other large IPs have not felt that the political and governance situation allows them to join in.

9. Under the Partnership Framework, Rwandan PGBS comprises a number of approaches. Differences in approach exist partly because PGBS IPs are at different stages of synchronising their activities, e.g. with the overall aid management calendar and cycle, recently refined in the “harmonised calendar”. Donor approaches also differ in the mix of political and technical conditionalities (reflecting the different mandates of the WB and bilateral IPs) and in the disbursement arrangements. As a result of the country’s geopolitical context, PGBS is quite markedly political in its underlying conditionality for bilateral IPs. Moreover, as a latecomer to PGBS design in Rwanda, the PRSC has introduced further differences, in approaches to the policy dialogue and conditionality content, and in the manner in which government performance is assessed (WB detailed PRSC matrix versus UK/Sweden’s broad performance assessment).

## **Part B: Analysis of PGBS**

### **EQ1 – Relevance**

10. Over the short and politically volatile period during which PGBS has been in existence in Rwanda, PGBS design has addressed the country context moderately well. PGBS has been most relevant institutionally, by supporting strong government leadership in rebuilding the country’s institutions. PGBS IPs succeeded in combining institutional support with funding in a manner which is appreciated by government. In this and other aspects, it has been a response to the perceived weaknesses of project aid. Decentralisation raises a new challenge for both the

government and PGBS donors: the government has to clarify its vision and operational strategy for decentralisation, while PGBS donors, in collaboration with government, have to assess what is the best modality of support to decentralisation and the implications for future PGBS operations.

11. However, PGBS design has been less apt at addressing political (for bilateral IPs) and financial (for all IPs) aspects of the country context. The process of negotiating and assessing political conditionalities couched in overarching bilateral Memorandums of Understanding (MOUs) has been under-specified, which has led to unilateral disruptions by IPs. With regard to financial dimensions, there has not been a conclusive dialogue between GOR, the IMF and PGBS IPs about long-term prospects for aid/PGBS and its role in the fulfilment of Vision 2020. And it is only recently that further attention has been paid to design issues related to within-year predictability of PGBS.

12. PGBS has been moderately relevant in addressing the economic context. PGBS supports the implementation of the PRSP and the PGBS design is as comprehensive as the PRSP itself. The first PRSP in Rwanda intended to address all dimensions of poverty but, in practice, attention has focused mostly on the social sectors and the non-income dimensions of poverty. From this initial focus, PRSP and PGBS are now in the process of expanding to embrace growth-related areas.

13. Conditionality (or the way it has been applied) is perceived by GOR as being not entirely consistent with the partnership paradigm. It is also the weakest area of PGBS in terms of internal consistency. Differences in PGBS IPs' approach to conditionality are less important than the fact that, in the government's perspective, there is still not enough emphasis on mutual accountability (on the part of government for the use of resources and poverty reduction results, and of IPs for transparency in PGBS-related decision-making).

## **EQ2 – Effects on Harmonisation and Alignment**

14. In Rwanda, harmonisation and alignment (H&A) is the continuation of earlier efforts by government to coordinate aid in its efforts to rebuild the country and its institutions. While the political nature of aid for bilateral IPs in Rwanda may at times make genuine harmonisation more difficult, the last five years have seen a step-change in alignment behind the government agenda articulated in Vision 2020 and the PRSP. This has been assisted by the establishment of joint aid management structures (including an overall dialogue mechanism embracing all IPs, and sector/thematic "clusters") and the joint development of improved PFM systems and processes.

15. PGBS policy alignment is moderately good at the overall PRSP level (i.e. with high-level goals and objectives) but is uneven across sectors. The potential for synergy between PGBS and sector alignment processes is present but it has been (partly) realised only in a few cases (education, emerging in health). There has been less progress with system alignment. PGBS programmes have been only weakly aligned with the government budget cycle, due to lack of attention to issues of predictability in early PGBS programmes. Progress with IP harmonisation has also been limited. Aid coordination, including for TA, is improving. TA/capacity-building in PFM is an outstanding example of PGBS/GOR alignment which is being emulated in other areas/sectors. However, thus far there has been little tangible progress in non-PGBS aid use of GOR's systems. The new H&A agenda requires greater in-country capacity on the IPs' side, and this is an issue which will continue to demand attention.

16. Overall, PGBS H&A effect has been strong for PGBS programmes and moderate for aid in general (perhaps through emulation of PGBS). While the main driver for H&A came from strong government leadership and the PRSP process, PGBS played an active support role, and the Partnership Framework for budget support stands out as an example for aid H&A in general. PGBS also has potential to improve complementarity between different forms of aid through supporting sector-specific coordination arrangements and cross-cutting processes.

### **EQ3 – Effects on Performance of Public Expenditures**

17. PGBS is substantial as a proportion both of total aid and of government expenditure. IPs believe that it has led to significant additionality of aid, because large amounts of funding could not have been disbursed through other mechanisms. GOR informants perceive a degree of substitution as IPs transfer project financing into PGBS. However, given the historically low disbursement rates of projects (between 50% and 70%), PGBS has resulted in a higher ratio of disbursement to commitments. The conclusion is that PGBS has contributed significantly to more external resources being available, and this has facilitated a steady increase in the share of “priority” spending in the government budget. However, “priority” spending does not necessarily equate with pro-poor spending.

18. The effect of PGBS on the fungibility of public expenditure financing is moderately strong. PGBS funding is by definition on budget and discretionary. But, whereas some IPs consider adopting “flexible funding” aid modalities that would also make it easier to bring aid on budget, this has not yet happened and there has been no effect on flows of off-budget aid. The large share of non-discretionary spending (circa 50% of the budget) further reduces the scope for resource reallocation. However, within this constraint, PGBS has enabled government to fund activities related to PRSP priorities such as “fee-free” primary education, reduced prices for critical drugs for HIV/AIDS patients and agricultural loan guarantees. PGBS is also providing recurrent funding for operating rehabilitated and new service delivery infrastructure, hence raising government spending efficiency. Together, these funding effects of PGBS have had a significant influence on government empowerment.

19. Short-term disruptions in PGBS flows caused by political, technical and donor administrative factors have taken their toll, including reducing operational spending efficiency (unreliable budget execution for non-wage recurrent spending). Nevertheless, PGBS funding has had a moderately positive effect on the overall regularity and predictability of external fund flows, since disbursements have eventually been disbursed in full (generally within six months of the scheduled disbursement date).

20. GOR perceives that PGBS allows large transaction cost savings compared with other modalities. This, however, has not been studied in any depth. There has also been little analysis of the trade-off between different types of transaction costs.

### **EQ4 – Effects on Planning and Budget Systems**

21. PFM systems have been extensively rebuilt and refined during the period 1994–2004. This has been heavily intertwined with aid, and recently with PGBS. GOR has viewed partnership with IPs as the key to system and process building. First and second-stage PFM reforms demonstrate the strong role that PGBS IPs have taken in supporting those reforms. In the words of a senior official of the Ministry of Finance and Economic Planning (Minecofin), PGBS TA and policy dialogue have made an “enormous contribution” to PFM system development. Through PFM, PGBS has played a strong role in empowering government, in particular Minecofin, and this in turn has provided government with the awareness and confidence to carry out further improvement of PFM systems.



22. Though there has been progress in expanding accountability mechanisms, this remains the weakest link in the PFM system. Developments that have taken place in this area, are considered to be moderately associated with PGBS, through the introduction of monitoring, financial reporting and accounting tools as part of the PGBS dialogue and capacity building. But the most effective elements of domestic accountability relate to Parliament, and developments in this area appear little connected with PGBS. It is recognised by PGBS partners that this is an area where more needs to be done, and emphasis on this area is part of the current PGBS programme design.

23. TA and capacity development for PFM look set to continue. The durability of PFM reforms depends on further deepening/extending capacity development, not only in central agencies, but especially in spending agencies. PGBS influence on this has been less striking thus far.

#### **EQ5 – Effects on Policies and Policy Processes**

24. A pro-poor reform process is in place and is improving over time from a moderate level of quality. Government ownership and sense of empowerment in relation to policy processes is quite strong, though this does not yet include all sector agencies and has yet to reach out effectively to sub-national levels. Policy-making is a disciplined, quite top-down process. However, policy processes have recently become more inclusive, though limited by weak capacities on the side of both government and civil society.

25. IPs are not fully-fledged policy actors in Rwanda. Moreover, in the views of some government officials, there remains a communication gap between national stakeholders and IPs. Robust government leadership of policy development preceded PGBS. In the stronger sectors, sector-specific arrangements played an important role and this has rarely been supported by PGBS. However, through policy dialogue, conditionality and TA, PGBS contributed to focusing government and IPs on key policy issues. It has facilitated participatory policy-making through a better structured and more objective dialogue between government and IPs, which is leaving more space for government to call upon national stakeholders. PGBS dialogue, conditionality and TA also help address weaknesses in reporting and monitoring systems which otherwise hamper policy adjustment. Accountability to PGBS IPs may complement and strengthen domestic accountability mechanisms and thereby enhance policy learning. PGBS has also been influential in strengthening intra-government incentives in the policy process through providing funding for new innovative policies.

26. PGBS influence on policies is primarily through the PRSP. It has been limited with regard to public/private sector issues. In the case of sector policies, PGBS may have brought more discipline in prioritising pro-poor interventions within an affordable financing framework. This influence has been uneven across sectors and shared with other sector-specific factors. It has been strongest in education, where there was a deliberate effort to create synergy between PGBS (funding, dialogue and sector-specific conditionality based on the PRSP indicators and targets in e.g. the EC programme) and sector-specific technical assistance.

#### **EQ6 – Effects on Macroeconomic Performance**

27. PGBS policy dialogue, conditionality and capacity building have provided more focus on macroeconomic policy and processes than projects. Macroeconomic conditionality is enforced chiefly through the IMF, and PGBS reinforces this through the link between disbursements and the PRGF review. In this sense, PGBS has supported features of disciplined budget management that were already present prior to PGBS.

28. Aid is macroeconomically fundamental in Rwanda, and PGBS is key in ensuring smooth flows of resources for the government budget, thereby facilitating prudent fiscal management. However, the desired combination of prudent management and smooth PGBS flows has not always been achieved. Government exceeded PRGF spending targets in 2003 as a result of a combination of weaker than usual macroeconomic management in an election year and uneven PGBS flows. These, combined with weak economic output, caused GOR to resort to bank and non-bank borrowing. This, in turn, contributed to inflationary pressures during the second half of 2003 and into 2004. Lending to the private sector appears also to have experienced a slowdown between December 2003 and June 2004, but with a strong revival during the second half of 2004.

29. Between 2002 and 2004, government borrowing affected the private sector through some effects on lending interest rates, but these were relatively minor. Delays and arrears in government payments for goods and services due to difficulties in budget financing (non-bank borrowing) have been more telling for the private sector. Other factors, including institutional changes toward a more conducive regulatory context for private sector development (under government reach) and structural constraints (not all under government reach), should combine with sound macroeconomic management to facilitate private investment in the future. This has not happened on a large scale in Rwanda, and PGBS has not been influential thus far in redressing these shortcomings.

#### **EQ7 – Effects on the Delivery of Public Services**

30. The link from increased resources available for service delivery to resources actually flowing to service delivery agencies, and from there to more and better services, is tenuous, partly because it is little documented. Even though more resources have been allocated, the limited evidence shows that service delivery has been constrained by the routine failure of non-salary recurrent releases to match approved budget allocations.

31. Regarding the link between policies and service delivery, the chain of government action (from sector policies/strategies to activities through MTEF/budget) needs further strengthening. Weaknesses arise from limited implementation capacities, poorly developed administrative reporting and monitoring, and a lack of local accountability mechanisms and processes. However, in spite of these hindrances, there have been steady gains in service delivery since 2000. Rebound accounts for some of it but this also appears to have been stronger in sectors where policies were more developed. Major gains have occurred in terms of access. Quality and responsiveness issues remain.

32. PGBS has played a supporting role through channelling resources to new pro-poor spending in the social sectors and enabling government to operate rebuilt and new facilities. On the other hand, PGBS within-year predictability and timeliness have been poor, which has hampered service delivery. TA and policy dialogue have helped design relevant operational policies. However, TA in general has not been effective at the operational level. PGBS emphasises that priority be given to strengthening financial reporting and accountability systems. Hence it could have an effect on service delivery capacity through helping establish better PFM and monitoring and evaluation (M&E) systems. But this has yet to trickle down to facility level. The public sector reform (PSR) and effective decentralisation of service delivery (complementing political devolution already in place) are seen by government as critical to tackling weaknesses in service delivery. PGBS has only been indirectly associated with either of these processes thus far.

### **EQ8 – Effects on Poverty Reduction**

33. In Rwanda three specific challenges arise when assessing the effect of government action and associated PGBS on poverty reduction: (i) the starting points are not well established (e.g. uneven progress in service delivery); (ii) the rebound effect following the destruction of 1994 makes it harder to demarcate the effect of public action; and (iii) data on poverty, especially relating to recent poverty changes, are scarce. Nonetheless, it is clear that poverty has been dramatically reduced since the immediate post-1994 period. However, progress is uneven and some indicators have stagnated or worsened, e.g. those related to inequality.

34. The challenge is to assess the trends since the introduction of more structured government action through the PRSP. The PRSP has been an appropriate and balanced policy response to the evidence on poverty and its causes. It provides for continuity of pro-poor post-1994 stabilising actions, and it includes a number of specific social measures which are directly pro-poor and which have had some immediate effect (e.g. increased enrolment in primary schools due to fee-free education). However, the effect of public action on income poverty reduction was probably swamped by external and structural factors. Empowerment policies have had limited results, beyond the immediate (and critical) outcomes of absence of conflict, and participation in popular elections and consultations.

35. The PGBS contribution to these changes is relatively strong in terms of funding, as noted in EQ5. PGBS supported the government budget that has been the largest contributor to the sectors of security, and justice and the functioning of human rights structures. PGBS has exerted some influence through non-funding inputs with regard to non-income poverty reduction. This has been almost nil with regard to empowerment, and is now rising from an initially low level for growth-related income poverty reduction.

### **EQ9 – Sustainability of PGBS**

36. The context is reasonably favourable for PGBS sustainability. GOR and its partners share common objectives. Moreover, PGBS and other aid modalities have demonstrated a reasonable degree of consistency and this looks set to be further strengthened in the future (e.g. Aid Policy Document). However, on the whole GOR's commitment to PGBS is higher than that of IPs, who are also interested in alternative aid modalities (sector-specific support instruments) which may substitute at least in part for what might have been PGBS funding. This has implications with regard to PGBS's role and perhaps sustainability.

37. Feedback loops necessary for GOR and PGBS IPs to adjust courses of action need strengthening. The recently agreed harmonised calendar outlines how feedback loops should work, linking M&E to planning and to PGBS operations, but it has yet to be thoroughly tested in a full cycle. Feedback loops currently in place do not systematically capture progress with the PSR and decentralisation or with the related institutional effects of PGBS. Existing learning mechanisms on PGBS itself are nascent. They have yet to prove that they would be sufficient to ensure that PGBS becomes more sustainable as a result of being consistently and consciously improved over time. With regard to PGBS design itself, feedback to home constituencies has been problematic for bilateral IPs with regard to political conditionality in situations of regional tension.

38. In spite of these weaknesses, partners have demonstrated an ability to learn lessons and use this learning to improve PGBS. They are also able to identify issues that are critical to PGBS sustainability (e.g. political conditionality, accountability, decentralisation). But it seems that the 'flagging mechanism' is more reactive than proactive, and there is no system ensuring that issues identified are addressed squarely and in a balanced fashion. The nascent self-

assessment process which was initiated during the first joint BS review in March 2005 provides a basis to move forward on this aspect.

### **Part C: Cross-Cutting Issues**

39. A number of policy and governance cross-cutting issues (CCIs) have been identified in the course of the overall GBS evaluation study. In Rwanda, the CCIs are all addressed in the PRSP. However, they vary in terms of their prominence in the PRSP dialogue and in the extent of their related policy and operational development and of PGBS engagement.

#### **Policy CCIs**

40. Gender, HIV/AIDS and environment are not explicitly addressed in the PGBS design (with the exception of a few PRSC indicators on environment in selected sectors). IPs are satisfied that they are adequately addressed elsewhere. In contrast, human rights and democracy issues are one of the dividing lines between PGBS and non-PGBS IPs. Human rights are given a prominent place in the PRSP and generally in government's discourse. However, there are divergent views on the reality behind these documents. For bilateral PGBS, IPs' issues of human rights and democracy underpin the PGBS dialogue through reference to their overarching bilateral MOUs. But there are no "measurable conditions".

#### **Public and Private Sector Issues**

41. GOR and IPs agree that the private sector needs strengthening to become the engine of growth. They also agree on the challenge raised by the specificity of the Rwandan economy (a very small and weak formal private sector and a large number of very small farms). However, PRSP/PGBS implementation has been little engaged with the growth agenda until recently. Few policies on private sector development and the role of the private sector have been defined so far. On this basis, it is not possible to assess whether GOR and IPs have common views on public/private sector issues at a more detailed level. These issues are becoming more prominent on government, PGBS and non-PGBS IPs' agendas with the follow-up of recent studies (e.g. the Diagnostic Trade Integration Study, DTIS) and the preparation of the second PRSP.

#### **Government Capacity and Capacity Building**

42. The PSR and decentralisation are government's main planks with regard to capacity development for delivering poverty reduction. These processes are strongly owned at central agencies' level and comprehensive in their intent. The accelerated pace of reforms is a challenge, and change toward greater efficiency and capacity in the long term (e.g. territorial administration reform 2005) take time to stabilise in organisational terms. PGBS has been supportive of the PSR, albeit in a rather indirect way, and it has been weakly and somewhat haphazardly engaged with decentralisation. This is emerging as a challenge for PGBS institutional relevance, as noted above.

43. Government has developed a comprehensive framework for building the country's capacity, the Multi-Sector Capacity-Building Programme (MSCBP). Thus far, IPs' response has been hesitant and incomplete. "PGBS-related" TA and capacity building have had definite effects (e.g. in PFM), but have not been well defined, and coordination, though improving, has been opportunistic. There are signs that IPs recognise the need for a more strategic approach to capacity development, but there is not yet a shared view on the shape that this might take and on the role of government's MSCBP in this.

### **Quality of Partnership**

44. Government ownership of the policy and reform processes is strong, especially in central agencies where capacities are greater. PGBS supports this well, though government has reservations in relation to political conditionality and perceives policy intrusiveness at times. The differences between the PRSC and other PGBS operations with regard to conditionality and performance assessment raise a challenge for further “intra-PGBS” harmonisation. It is also too early to assess the extent to which the more detailed PRSC approach would lead to more influence on the policy process and which approach is, ultimately, more suitable to further enhance government ownership and empowerment.

45. On the whole, PGBS has the potential to reduce aid transaction costs significantly and has begun to do so. Further reducing these costs is a general concern shared by all IPs and government. But this will require more attention to the different types of transaction costs.

46. The interplay between aid modalities has been moderately good thus far but largely shaped by opportunistic factors. A number of initiatives of development of alternative/complementary aid modalities are under way (including the design of sector support instruments) which will change the landscape for PGBS and will have implications that need to be better understood in terms of trade-offs between types of transaction cost.

### **Political Governance and Corruption**

47. Rebuilding the basis for political governance was given the utmost attention during the post-genocide period in Rwanda. Good governance is proclaimed as a priority in all important government documents and is a comprehensively defined pillar of the PRSP. For IPs, the political governance agenda is dominated by human rights and the opening up of the political space. As noted above, these are among the factors demarcating PGBS and non-PGBS IPs (among bilaterals). Providing PGBS is one of the marks of a “constructive engagement” approach, and one which is thought to provide better opportunities for dialogue on political governance issues with GOR. In reality, it is unclear whether the “right” to this dialogue comes with PGBS or with trust.

48. Corruption, as a broad political governance issue, is not addressed in the PGBS dialogue. This is because it is generally perceived as not being a problem in Rwanda. However, risks may be increasing, especially of subtle forms of corruption through exclusion patterns (e.g. lack of recognition of rising inequality) and concentration of economic power. It is unclear how the PGBS dialogue might position itself vis-à-vis these risks.

49. In conclusion, there appears to be an expectation, especially on the side of some IPs, that PGBS should, more than other aid modalities, ensure that “controversial” CCIs are raised when appropriate. It needs to be asked whether the question of engaging or not on these issues should not hold for all aid modalities. Where PGBS is not actively engaged in dialogue on CCIs, this need not be an issue as the CCIs are discussed in other fora. But there is scope for better interlinking PGBS and those other dialogues, as noted generally for sector dialogues too.

## **Part D: Synthesis – Overall Conclusions and Recommendations**

### **Overall Assessment of PGBS in Rwanda**

50. The broad conclusion is that in Rwanda PGBS is an example of the successful establishment of a modality that has met one of its primary aims, namely channelling large flows of resources to the national budget to support the reconstruction/development agenda of the government in the short term, and empowering and building government capacity for the longer term. PGBS has been more visibly successful with the former objective, but this has to do with both greater difficulties in measuring results for the latter and the fact that these results take longer to materialise.

51. The most visible effects of PGBS are associated with the flow of PGBS funding, which, together with policy and institutional effects, has been of critical importance in empowering government (central agencies in particular) in various ways. Another highly visible set of effects is the continued strengthening of PFM systems through policy dialogue and TA/capacity building. The effects of non-financial PGBS inputs have been weaker in other areas. In a number of cases, they have effectively reinforced other influential factors, though overall this may not yet have amounted to the full deployment of PGBS potential in support of policy and institutional changes. The relatively small scale of PGBS in terms of number of IPs involved and – until recently – sectors covered has been found to be a possible limitation in this respect.

52. In relation to the various levels of the EEF, the strength of the links and of the attributability to PGBS decreases when travelling from inputs to impacts. The most complex picture, with a mix of strong, moderate and weak links and PGBS influence, is at Level 3, embracing the effects expected in terms of strengthening government systems, processes and institutions. All aspects are work-in-progress. Some have been strengthened already (e.g. emergence of more participatory policy-making, improved allocative efficiency of public expenditures) and in others more work is to be done (e.g. financial reporting capacity, definition of organisational arrangements for decentralised service delivery). Because of the mixed results at Level 3, the links thereafter are not supported by sufficient evidence to be affirmative on outcomes and impacts.

53. The analysis points to most positive results of PGBS in Rwanda in relation to:

- An increase in the volume of external resources for the budget, facilitating further orientation of government spending on priorities including the expansion of basic social services;
- A strong and effective support to PFM system development which has the potential to enhance further the positive funding effect through improving budget execution, establishing stronger accountability systems, etc.;
- A strong effect of empowerment of central agencies, which provides a solid basis for further strengthening systems and capacities throughout government;
- An effective support to government leadership in aid management, through PGBS's own effectiveness as a modality and through setting examples for aid in general.

54. The most visible weaknesses yet to be addressed have been found to be:

- Conditionality, which affected PGBS flow-of-funds predictability, with negative effects down to service delivery, and failure to fulfil all government expectations of the partnership paradigm of PGBS;
- The general weakness of accountability mechanisms and of the feedback systems that are required to inform those (reporting, monitoring, data collection and analysis, etc.), hampering further adjustment in government action for better results, and curtailing the ultimate impact in terms of empowerment and social inclusion;

- The limited “outreach” of PGBS vis-à-vis line ministries, service delivery and decentralised levels, linked with weak engagement with the PSR and decentralisation, which curtails further gains in service delivery and non-income poverty reduction;
- Mirroring the PRSP, the limited engagement of PGBS with the growth agenda (and its equality dimension) as a means to income poverty reduction.

### **PGBS in Rwanda – Future Prospects**

55. Several significant developments and issues are likely to influence the applicability of PGBS in the future in Rwanda. Firstly, tensions may arise more easily in Rwanda than elsewhere because of the unsettled regional and national political situation, and this generates uncertainties for PGBS flows of funds. This is all the more problematic as government activities are highly dependent on external funding. Consideration should be given to a generalised “due process” mechanism that would prevent disruptions in within-year disbursements (except in case of breach of fundamental principles), be it for political or any other reason.

56. GOR is at a critical juncture in defining the prospects for Rwanda’s long-term development. The study notes government’s desire to rebalance the overall policy agenda and the emergence of a “wealth creation” paradigm, creating a certain tension with the prevailing social sector-led poverty reduction thinking. A reorientation of Rwanda’s overall development strategy is under way as part of the PRSP-2 preparation. The implications for aid in general and PGBS in particular should be discussed as part of the same process, as embracing the “growth agenda” has significant implications for PGBS design.

57. As noted above, there is a pressing necessity for building strong accountability mechanisms throughout government. This will require a lot of support. There is a strong case for GOR and PGBS IPs to take a comprehensive approach in addressing accountability issues. This means avoiding an exclusive focus on technical and technocratic dimensions, linking up this agenda with the social inclusion/empowerment dimension of poverty reduction and using PGBS-related accountability mechanisms as a way to strengthen domestic ones.

58. Throughout the evaluation, capacity weaknesses have been identified as an important constraint on the effectiveness and efficiency of government action and of PGBS to deliver poverty reduction. Tackling issues of capacity is therefore crucial. This implies a strong, continued and flexible support to the PSR, but also meeting capacity needs on the side of civil society at large and of private sector actors. Building capacities is also necessary to strengthen accountability. Even more importantly, with the recent territorial administration reform, decentralisation is likely to be a determining factor in shaping government capacity for delivering its policy intentions. It is going to be critically important to build the capacity of the “new” decentralised entities once they will be in place in 2006. This imperative and the recognised need for a more strategic approach to capacity development in general have important implications with regard to the design of institutionally relevant PGBS programmes.

59. The overall assessment in the previous section points towards long lead times for public action, and associated PGBS, to generate the impacts hypothesised in the EEF. Thus, establishing the sustainability of PGBS on solid bases is important. The “quality” of the partnership between GOR and PGBS IPs is critical to this endeavour. This study points at five aspects which are important for raising it further in the future. These are: (i) improving PGBS programmes’ consistency in relation to conditionality; (ii) improving the processes around performance assessment and decision-making for PGBS disbursement with a view to making PGBS a more predictable and timely resource for the government budget; (iii) strengthening complementarity between PGBS and other aid modalities; (iv) strengthening the framework for

alignment of aid in general and PGBS in particular with government systems; and (v) reinforcing PGBS self-assessment and “learning from itself” mechanisms.

### **Main Recommendations**

60. Based on the assessment and prospects analysed above, the following recommendations are proposed against five main themes.

Long-term development and the role of aid and PGBS in Rwanda:

- R1 Dialogue on development paradigm, trade-off and linkage between growth/wealth creation and poverty reduction, inequality issues, as part of rebalancing of PRS agenda.
- R2 Raise profile of issue of inequality in PGBS dialogue, supported by evidence and linking this to ongoing discussions on Rwanda’s development paradigm and the reorientation of PRSP agenda.
- R3 Address issue of the role of aid in Rwanda’s long-term development perspective (scaling up vs. reducing aid dependency; political volatility vs. long-term commitment).
- R4 Explore and agree on realistic long-term development perspectives for Rwanda (Vision 2020) and role of growth and aid (scaling up vs. reducing aid dependency) as a framework for medium-term to long-term commitment to PGBS.
- R5 Balance progress made with overall macroeconomic stability and PFM with progress in private sector reforms (liberalisation, deregulation, follow-up on DTIS studies).
- R6 Clarify how PGBS as a whole will adjust to expanded agenda of the PRSP-2 (Economic Development and Poverty Reduction Strategy) and link to recommendations under the next heading.

Government capacity and decentralisation:

- R7 Address issue of PGBS and decentralisation: explore options for PGBS design and/or alternative/ complementary support to service delivery and local development.
- R8 Explore how PGBS design can simultaneously strengthen national sector strategies and decentralised service delivery (new context: territorial reform, August 2005).
- R9 Clarify how PGBS design will accommodate closer link between PSR, decentralisation and service delivery.
- R10 Support strengthening capacity of civil society, private sector, Parliament etc. to enable them to engage more meaningfully in policy dialogue with GOR.
- R11 Provide support to capacity building of decentralised entities under the PGBS design or as a complement. Explore options for linking up with Human Resource Development Agency’s (HRDA) strategy and work programme.
- R12 Strategic approach to capacity development: clarify role of IPs’ support to capacity development vis-à-vis government MSCBP.
- R13 As part of the above, address issue of coordination between sector/thematic capacity development plans and support (e.g. PFM, education, decentralisation with DIP) and WB PSCBP.
- R14 Strengthen PGBS review framework through development of and link to a process of review of institutional developments (PSR, decentralisation).
- R15 Continue support to strengthening poverty and sector performance monitoring systems (data collection and analysis). Explore options for linking up with HRDA’s strategy and work programme.
- R16 Support further development and implementation of a comprehensive and continuous research programme on poverty, growth and inequality in Rwanda, and of the required capacities in government and non-government organisations.



Accountability issues:

- R17 Strengthen financial reporting and accountability systems including strengthening domestic stakeholders' capacity.
- R18 Strengthen accountability mechanisms throughout government systems (particular attention to how PGBS accountability mechanisms could further strengthen domestic systems).
- R19 Ensure that findings from assessments such as budget reviews and Public Expenditure Tracking Survey (PETS) are thoroughly discussed and acted upon.
- R20 Further strengthen government systems with an emphasis on feedback mechanisms.
- R21 Improve definition and clarify role of priority programmes in public expenditure and domestic accountability framework.

Political nature of aid and PGBS in Rwanda:

- R22 Establish due process mechanism in PGBS performance assessment framework (all PGBS IPs; particular attention to political conditionality and link to MOUs for bilateral IPs).
- R23 Clarify expectations from PGBS vs. other aid in relation to political governance dialogue.
- R24 Strengthen mechanisms of feedback to IPs' home constituencies (through more regular and comprehensive information; more generally through programmes of education of civil society, parliaments etc. on "new aid paradigm" and implications).

Quality of partnership:

*conditionality and predictability of PGBS*

- R25 Further develop mutual accountability framework with a view to enhancing GOR's ownership and improve predictability of PGBS (transparency of IPs in decision-making; transparency of GOR in use of funds and results).
- R26 Tidy up conditionality content and process.
- R27 In particular, address issue of feasibility and relevance of a joint performance assessment framework.
- R28 Improve decision-making process re within-year disbursements of PGBS (e.g. schedule disbursements collectively to create regular cash flow).

Quality of partnership:

*complementarity between PGBS and other aid modalities*

- R29 Further dialogue on choice of and balance/complementarity between IPs and between aid modalities and instruments at various levels (including Aid Policy Document for all IPs; individual IPs internally to their portfolio; articulation of PGBS and SWAp; articulation of PGBS–decentralisation–PSR etc).
- R30 Further strengthen complementarity between IPs' portfolios and instruments.
- R31 Carry out GOR and IP transaction costs review – linked to aid scaling up issues (see recommendations *Quality of Partnership: conditionality and predictability of PGBS*).
- R32 Sequence reforms and further decrease transaction costs, including of the partnership dialogue, as much as possible.

Quality of partnership:

*system alignment and learning mechanisms*

- R33 Strengthen application of harmonised calendar, including timing for PGBS disbursement, links between PRS, sector and BS reviews etc. – and therefore strengthen links between dialogues.
- R34 Strengthen PGBS self-assessment and learning mechanism building on all existing mechanisms (including self-assessments under BS reviews).

## **UGANDA EXECUTIVE SUMMARY**

### **Part A: Context and Description of PGBS**

#### **Introduction and Conceptual Framework**

1. Uganda is one of seven case studies in a joint evaluation of General Budget Support (GBS). The finance in GBS is usually accompanied by other inputs – a process of dialogue and conditions attached to the transfer, technical assistance and capacity building, and efforts at harmonisation and alignment by the GBS donors. Other forms of programme aid, including debt relief and other balance of payments support, may also be considered as budget support when they generate resources that can be used to finance the government budget, but this evaluation concentrates on so-called “new” or “Partnership” GBS (PGBS). This focuses explicitly on poverty reduction, and it attempts to support nationally developed strategies rather than imposing external policy prescriptions.

2. Although the evaluation focuses on PGBS, it covers the period from 1994–2004 in order to assess whether and how PGBS differs from other variants of budget support. The purpose of the evaluation is to assess to what extent, and under what circumstances, PGBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The Uganda study followed the same methodology as the other country cases. This is fully set out in the Inception Report approved by the steering committee for the study, and involves working through “levels of analysis” from the entry conditions at the point that PGBS was adopted, to the inputs made by PGBS, their immediate effects, outputs, outcomes and impacts on poverty reduction. The analysis in each chapter responds to a common set of evaluation questions. The Uganda report also incorporates a special study of decentralisation and PGBS.

#### **The Context for Budget Support in Uganda**

3. After independence, Uganda suffered decades of conflict and misrule, during which the economy regressed and living standards declined. In 1986 the present National Resistance Movement (NRM) government took power, led by Yoweri Museveni. This ushered in a more peaceful period during which there has been stability and growth. President Museveni established good relations with the donor community, and Uganda was a pioneer in a number of developmental innovations: it was the first country to qualify for Heavily Indebted Poor Countries (HIPC) debt relief, its own poverty strategy anticipated the now standard Poverty Reduction Strategy Papers (PRSPs), and it was the first recipient of a World Bank Poverty Reduction Support Credit (PRSC).

4. Economic growth, which has averaged over 6% over the last 15 years, has had a significant effect in reducing income poverty, but Uganda remains one of the world’s poorest countries, ranked 144 out of 159 countries on the Human Development Index (2005). Progress in raising per capita incomes has been undermined by high population growth, which averaged 3.4% a year between 1990 and 2002. The HIV/AIDS pandemic had a devastating impact on the Ugandan population throughout the 1990s, but there were dramatic reductions in HIV prevalence from around 20% to below 10% in 2000, and now levels have stabilised at around 7%. There are significant regional variations in human development outcomes, and the North, which is ravaged by conflict, lags behind the rest of the country.

5. From the mid-1980s, the International Monetary Fund (IMF) and the World Bank undertook a series of structural adjustment operations in Uganda. Initially there were tensions between them and the Government of Uganda (GOU) over macroeconomic policy, but there

was a breakthrough in 1992 when, after an episode of fiscal indiscipline, President Museveni strengthened the position of a unified Ministry of Finance, Planning and Economic Development (MFPED), which introduced a rigorous system of cash budgeting. Since then fiscal deficits and inflation have been kept under control (with inflation remaining below 10% since 1994). The track record of strong macroeconomic management throughout the evaluation period meant that the dialogue between Uganda and its international partners (IPs) moved on to issues of development strategy and public expenditure.

6. In the early 1990s, while targeted interventions were carried out to alleviate the adverse social costs of structural adjustment, concerns emerged about the need to address poverty issues more comprehensively and to focus aid more effectively. In 1995 a forum on poverty attended by the President was held, and a task force was established to examine how poverty could be tackled. This task force developed Uganda's first comprehensive poverty reduction strategy, the Poverty Eradication Action Plan (PEAP1), which was published by the Government in 1997. The PEAP, now in its third iteration, is widely regarded as a genuine, and government-owned, poverty reduction strategy. Disciplined macroeconomic management was allied to the strengthening of public finance management, led by MFPED, including the development of increasingly sophisticated links between medium-term plans and budgets, with the result that PEAP priorities could be reflected in budget allocations.

7. Throughout the evaluation period, Uganda maintained a democratic but "no-party" system of governance, reflected in the 1995 constitution, which also provided the framework for systematic decentralisation. The NRM government was a marked improvement on its predecessors, with a lower incidence of human rights abuses and tolerating a vociferous press. Its relations with the international community were good, but have recently become more strained over Uganda's involvement in regional conflicts, uncertain transition towards multi-party democracy, high-level corruption, and the amendment of the constitution to allow President Museveni to seek a third elected term of office.

8. Uganda is a highly aid-dependent country. Over the evaluation period, aid flows averaged 11% of GDP and 50% of public expenditure. The political and economic success of the NRM government, contrasted with that of its predecessors, led Uganda in the late 1990s to be regarded as a rare success story in Africa. An active and transparent aid management strategy helped to ensure sustained support from a wide range of bilateral and multilateral aid agencies.

### **The Evolution of Partnership GBS in Uganda**

9. Uganda was a pioneer in new (Partnership) GBS, which currently accounts for half of its aid flows and involves a wide range of donors and a large number of instruments. The genesis of PGBS lies in: evolution from structural adjustment and debt-relief forms of programme aid; strengthening of the planning and budgeting system which underpinned moves towards sector-wide planning and aid coordination in key sectors; development of a national poverty reduction strategy (the PEAP); and the linking of HIPC debt relief to an innovative Poverty Action Fund (PAF). Government was an active innovator, with clear preferences concerning aid modalities which were expressed in the PEAP2 partnership principles.

10. New-style (Partnership) GBS began in Uganda in 1998, with the funding of the Poverty Action Fund, using notionally earmarked budget support alongside HIPC debt relief. This was allocated to priority poverty reduction programmes through the GOU budget, including earmarked sector budget support linked to sector programmes in education and then health. The introduction of the PRSC by the World Bank in 2001 marked the first full unearmarked PGBS designed to support Uganda in the implementation of the PEAP.

11. Between 1998 and 2000 there was a rapid increase in aid flows, associated with increasing donor confidence in GOU reforms, and the emergence of PGBS. There was a large absolute and relative increase in programme aid from 2000 to 2003 as an increasing number of donors began using budget support, to varying degrees, as part of their aid portfolios. Programme aid reached, and remains at, well over 50% of on-budget aid flows. By 2003/04 there were 13 different donors providing PGBS, and these donors were operating 34 different budget support programmes, of which 25 were sector budget support programmes.

12. Over the evaluation period development partners have used three main variants of PGBS:

- *Sector Budget Support* – budget support notionally earmarked to a particular sector, subsector or programme within the sector, whether inside or outside the Poverty Action Fund. This represents the largest number of budget support instruments, and has involved the largest number of donors – 13 up to 2004. Between 1998/99 and 2003/04 approximately USD 509m was disbursed using this form of budget support.
- *Poverty Action Fund General Budget Support* – budget support that is notionally earmarked to the Poverty Action Fund as a whole, but not to individual sectors. Five donors have taken this approach to budget support, and approximately USD 145m has been disbursed between 1998/99 and 2003/04.
- *Full General Budget Support* – this is completely unearmarked. Six donors have used full GBS as an instrument, and this includes the World Bank's PRSC. Despite the small number of full GBS donors it represents the largest amount of PGBS, with USD 713m being disbursed between 1999/2000 and 2003/04.

13. Since in all cases the funding is only notionally earmarked to particular expenditures, all these variants are treated as PGBS for the evaluation. Because of its scale and central position in the dialogue, the PRSC functions as the leading edge of PGBS.

## **Part B: Analysis of PGBS**

### **The Relevance of PGBS**

14. The first stage of the evaluation is to consider the relevance of the "design" of PGBS – considering what guided donors' decisions to enter PGBS and what adaptations they made to match their objectives to the political, institutional, and economic context. In fact there have been, and are, many PGBS instruments, and they have evolved significantly over the period. The study has assembled a full inventory of these instruments and their characteristics in terms of financial flows, disbursement conditions, dialogue arrangements, harmonisation and alignment of the IPs, and complementary technical assistance and capacity building (TA/CB). While the finance is straightforward to identify as a discrete input, the other inputs are typically shared with other aid instruments, and the TA/CB inputs are both the least explicit part of the design and the most difficult to identify separately.

15. Overall the many different designs of PGBS have been fairly responsive to the specific conditions of Uganda, and they have adapted to the evolving PRSP and sector priorities. However, the original design was perhaps too optimistic about governance issues and there was a bias towards the social sectors, with productive issues emerging later.

16. Much of the PGBS dialogue used pre-existing sector and budgetary forums, with the PRSC steering committee being the main addition. Conditionality has been increasingly focused on government policies and plans. Despite being well structured, there are gaps where dialogue and conditionality could have helped foster reforms, while the dialogue often gets dominated by

issues where progress is unlikely. Meanwhile IPs have made inaccurate assumptions about the level of government ownership of policies and plans, which are increasingly technocratic, and less political.

17. The 1997 PEAP (whose subsequent iterations became the PRSP) and sector strategies, which were again initiated before the move to PGBS, meant there was a strong framework of poverty reduction objectives to which PGBS could be aligned from the outset. Although the PGBS design responded to a lot of the weaknesses in aid instruments in terms of alignment towards government objectives and harmonisation with government systems, there is still a degree of incoherence and inconsistency in design across donors.

### **Effects on Harmonisation and Alignment**

18. PGBS has been part of an elaborate structure of dialogue and coordination, including annual Consultative Group meetings, direct involvement of donors, through Sector Working Groups, in the budget process, and an annual PRSC timetable.

19. The alignment of PGBS towards GOU objectives and targets set out in the framework of the PEAP and sector strategies has been strong, and given the relative and absolute increases in PGBS this has had a strong effect on alignment of IPs towards GOU objectives. Because of the strong plan–budget links in the GOU system, such alignment was more than lip-service to policy objectives. However, conditions have not always been aligned with pre-existing government policies, although GOU is always involved in their selection. MFPED played a strong role in aid coordination early on, and GOU and donors have increasingly used joint analytical work. There has, however, been limited improvement in the coordination and management of TA and CB support, although some is linked to the PRSC dialogue.

20. Alignment of PGBS with the budget cycle is not strong: commitments are not aligned with GOU's medium-term and long-term planning horizon, and in-year disbursements vary across donors. PGBS has, automatically, contributed strongly to the increased use of government implementation systems, although recent increases in project support are threatening to undermine this.

### **Effects on Public Expenditure**

21. PGBS has had a major effect in increasing total and pro-poor expenditures. The latter have been largely channelled to basic services delivered by local governments. Uganda's public revenues and expenditures have increased in real terms by 240% over the last 10 years. PGBS funding has contributed 31% of the real increase in public expenditures between 1997/98 and 2003/04, when pro-poor expenditures increased from 17% to 37% of the budget with a knock-on effect in increasing the transfers to local governments. PGBS has been effective in increasing the discretionary funding on-budget, even when a substantial proportion has been notionally earmarked under the Poverty Action Fund, as GOU was able to influence where that funding was earmarked to.

22. Flows have been broadly predictable, inasmuch as the GOU has been able to expect continued high levels of aid, but there have been problems with short-term predictability of disbursements (which has recently improved). MFPED has coped with short-term unpredictability by discounting projected disbursements and using reserves to buffer expenditures.

23. PGBS has contributed to allocative efficiency through the shift to pro-poor expenditures under the Poverty Action Fund (PAF), but the definition of pro-poor expenditures in the PAF is limited and programmes only get added but not withdrawn, which may limit the efficiency gain. PGBS has also increased operational efficiency, as an increased share of sector budgets is being channelled to service providers and there has been a relative decline in public administration expenditure; however, rapid increases in public expenditure may have weakened incentives to improve efficiency. There is also evidence that transaction costs for administering PGBS are relatively lower than for project support.

### **Effects on Planning and Budgeting Systems**

24. The basic elements of the budgetary formulation process were in place prior to PGBS. Flows of PGBS funding assisted in strengthening Uganda's PFM systems and increased the attention that spending agencies paid to that process. This was mainly due to the higher proportion of on-budget funding, which strengthened the budgeting process and provided an incentive for agencies to develop their strategies and plans.

25. The influence of PGBS on accountability has been mixed. In some areas there are signs of increased accountability through sector review processes and in greater involvement of Parliament in the budget process. However, donors often dominate the dialogue at the expense of domestic stakeholders.

26. So long as strong leadership remains in the MFPED, these improvements are likely to be sustained, although there is evidence that a combination of Poverty Action Fund rigidities and an increasingly routine budget process and perceptibly weaker budget challenge may undermine the future efficiency of public expenditure.

27. Other PGBS inputs, most notably policy dialogue and technical assistance, have helped put managerial pressure on the budgetary reform programme, but those reforms remain more technocratic than focused on democratic accountability. Technical assistance and capacity building linked to PGBS have helped improve PFM systems but their effectiveness has been limited, as they have not been strategic or linked to a coherent reform programme. There has, however, been greater focus on central budgetary systems than on those for local governments, even though there have been major expansions in local resources and service delivery at that level. National level dialogue on the budget has tended to be distracted by issues where progress is unlikely, at the expense of areas where dialogue is more likely to yield results.

### **Effects on Policies and Policy Processes**

28. Uganda has a particularly well developed set of policy processes at the sector level, many of which pre-dated PGBS, and increasingly so in cross-cutting areas of reform such as decentralisation and PFM. However, the political ownership of these processes has been weakening.

29. PGBS and non-PGBS IPs are important participants in policy making at the sector and cross-sector levels, as a result of a coincidence of interests between the President, MFPED and the IPs, but this coalition is increasingly fragile. Consensus around the broad strategy and objectives of the PEAPs enabled the GOU and donors to focus on means and priorities in the context of the system of medium-term expenditure planning. Where the quality of dialogue and resulting conditions was good, they played a positive role in refining policy and in providing additional impetus to key reforms. Donor influence was partly responsible for the involvement of a wider range of stakeholders including civil society, in policy processes, although some question its meaningfulness.

30. Processes are often adaptive to circumstances and constraints, including political decisions such as free healthcare. While cross-cutting processes are less well developed, the policy dialogue and conditionality helped protect some of the ongoing reform processes in PFM and decentralisation from opponents, and maintain the pace of reform. At the same time, the prominence of the donors has tended to overshadow domestic stakeholders, including Parliament.

31. Sector policies and public expenditure plans are particularly explicitly linked in Uganda, and the Long Term Expenditure Framework has added a long-term perspective. However, policies have often been public sector dominated and neglected the role of the private sector, although these issues are becoming increasingly prominent.

### **Effects on Macroeconomic Performance**

32. Macroeconomic stability and discipline were maintained throughout the evaluation period, with low inflation and tight control over aggregate public spending. The foundations for Uganda's strong macroeconomic performance had been laid before PGBS, and balance of payment (BOP) support was crucial to this. PGBS has allowed higher levels of public expenditure and of foreign exchange reserves, facilitating cash management and the use of reserves to limit exchange rate volatility. A dialogue on macroeconomic issues with the IMF continues and PGBS disbursements are usually tied to Uganda remaining on track with the IMF.

33. Increases in aid, and PGBS insofar as it has facilitated a rapid expansion in aid, have contributed to an increase in the costs of budget financing, as the GOU has chosen a sterilisation strategy which favours issuing domestic debt relative to selling foreign exchange. This strategy has been chosen because of concerns over the effect of high aid flows on export growth.

34. Although private sector investment has increased throughout the evaluation period, high domestic interest rates, in part a consequence of the GOU's sterilisation strategy, undoubtedly have a dampening effect on the private sector. Overall, however, both private sector investment and export growth (in terms of volume at least) have been buoyant, indicating that aid-fuelled increases in public expenditure have not excessively crowded out private sector growth. The GOU is concerned to pre-empt "Dutch Disease" effects of large aid inflows, and therefore seeks to set a limit to the deficit, but issues about Uganda's absorptive capacity for aid are not specific to the PGBS modality. Although domestic revenues are low, they have been growing as a proportion of GDP and there is no evidence to suggest that PGBS has had a negative effect on total revenue collections.

35. There is strong commitment, politically and within MFPED and the Bank of Uganda (BOU), to the maintenance of fiscal discipline and macroeconomic stability, which PGBS has supported, but did not originate.

### **Effects on the Delivery of Public Services**

36. PGBS funding has accelerated increases in the quantity of basic services delivered by local governments, from which the poor have undoubtedly benefited, although the targeting of those services is not always pro-poor. However, the quality of services in health and education is very weak, and undermines the benefits of expansion.

37. Through its flexibility, PGBS has also allowed more efficient and effective resource allocation for service delivery. This manifests itself in the extent to which the GOU has been able



to expand expenditure on the recurrent aspects of service delivery in some sectors, alongside development spending.

38. The Poverty Action Fund facilitated this, and the notional earmarking of PGBS to the Poverty Action Fund and sectors helped accelerate the change. Decentralisation has been a key reform and through facilitating increased transfers to local governments PGBS funds had a hand in strengthening new institutional relationships in service delivery and building institutional capacity in local governments (LGs). However, LGs have been given only limited autonomy over the funds provided, which has undermined the responsiveness of those services.

39. Other PGBS inputs have helped to support some of the reforms and initiatives relating to delivery, especially at the sector level, and most sectors have developed clearer policy frameworks and strategies for implementation. However, policy dialogue, TA and CB have not been given attention commensurate with their importance to local government institutional issues or to service provider–client relationships as means of improving the quality and accountability of services. There has been inadequate focus on strengthening service delivery institutions, beyond increasing the inputs available to them.

### **Effects on Poverty Reduction**

40. The proportion of Ugandans below the national poverty line fell from 56% to 34% of the population in the 1990s, with the majority of these improvements towards the end of the decade; however, this indicator increased to 38% in 2003. The causes of these trends, and the robustness of the data, are matters of debate. There are significant regional variations, with poverty remaining exceptionally high in the conflict-affected North. The influences on income poverty include many factors besides government action and aid flows, and it would be inappropriate to ascribe trends in either direction simply to the poverty reduction strategy that PGBS has supported.

41. However, PGBS has made some impact. PGBS has made a major and efficient financial contribution to the expansion of service delivery that the poor have been able to access, although weak quality is undermining the benefit accrued from those services. PGBS funds contributed to a generally positive macroeconomic environment which has supported income growth, but otherwise the PGBS influence on income poverty is limited. The domination of the social-service-driven agenda early on in the evolution of PGBS has limited the room for promoting public sector action which promotes income generation and growth. However, non-financial inputs have fostered policy review, which has highlighted the need to pay more specific attention to service delivery quality and income poverty in future.

42. PGBS has supported decentralisation which is intended to encourage participative decision-making, but the impact on empowerment of the poor is not conclusive. There have not been significant improvements in the administration of justice or human rights, and people affected by conflict in north Uganda have received limited attention.

### **The Sustainability of PGBS**

43. The mechanisms for managing PGBS and for monitoring it, in the context of overall monitoring of the national poverty reduction strategy, are continuing to evolve in response to experience, and are strongly rooted in national systems for planning and budgeting. Further convergence is likely as the PRSC performance matrix is more directly drawn from the PEAP. In Uganda there are mechanisms for monitoring the three main flows of PGBS; however, there is an imbalance in monitoring. Expenditure-level and outcome-level monitoring are well developed, but routine data collection on the direct results of public sector action is limited and this limits the

scope for evidence-based decision-making. It is important to strengthen the specification and monitoring of intermediate links so that the implementation and effectiveness of policies can be followed up.

44. The scope for involvement of IPs in policy processes and the nature of those processes at the sector and cross-sector levels provide substantial scope for shared learning, but short institutional memory on the side of IPs undermines this somewhat. Systems for providing feedback through sector review mechanisms and the PRSC steering committee are well established. However, the apparent reduction in political involvement in these processes does not augur well for sustainability. In addition, concerns about political transition and corruption make their Uganda aid harder for IPs to justify to domestic audiences. PGBS, because it is not earmarked, is regarded as especially vulnerable to criticism.

45. Threats to the effectiveness of PGBS may come from a weakening of the coalition of interests between the presidency, MFPED and donors. Sustainability, and continued positive effects from PGBS, will depend on graduated responses linked to a realistic appreciation of the limits of donor influence.

### **Part C: Cross-Cutting issues**

46. In general, PGBS has proved a useful complement to other aid instruments in addressing a range of cross-cutting issues, with these issues being integrated into the PEAP and forums for dialogue established.

#### **Policy CCIs**

47. *Gender* issues are addressed and mainstreamed more systematically in Uganda than in many countries and existing government structures have been used rather than parallel structures. The PEAP dialogue has embraced dialogue on gender, and there is a donor group which deals with gender issues, and engages on these matters.

48. *Environment* issues were also embedded in the PEAP process, and a Sector Working Group was established in 2001. PRSCs have included actions relating to strengthening environmental institutions, but they remain weak and are lent limited budget priority.

49. Uganda was one of the first countries, with a strong political lead, where *HIV/AIDS* prevalence has fallen. However the HIV/AIDS strategy was only partly mainstreamed in the first two iterations of the PEAP, and there is controversy over the extent to which global funds can be accepted, given the government's macroeconomic ceiling.

#### **Public and Private Sector Issues**

50. As highlighted earlier, there was an early bias in PGBS towards social sector service delivery, although MFPED always emphasised the importance of macroeconomic stability for fostering private sector investment and growth. Successive PEAPs and PRSCs have given greater attention to issues of economic growth and private sector development, but the expansion of initiatives such as the Agricultural Advisory Services is constrained because resources have been pre-empted by basic public services.

### **Government Capacity and Capacity Building**

51. There has been limited systematic capacity building of government institutions, although PGBS funding, through its effect on public expenditures, has served to improve the incentives for institutions to build their capacity.

52. Donor TA/CB have been the least well specified inputs of PGBS, and there has been little improvement in the coordination and targeting of such activities as a result of PGBS. There has been an absence of coherent capacity-building strategies within government, while there are large variations of capacity in central and government institutions. TA/CB support has been carried out differently in different sectors in central government and tends to be fragmented. More innovative approaches to capacity building have been attempted at the local government level, and linked to incentives to access grants with some success, but there remains a lack of technical support to new policy initiatives. There is therefore scope for greater complementarity between PGBS funds and TA/CB inputs.

53. PFM has been a natural focus for PGBS-linked capacity development, but LG capacity is crucial to effective service provision and should receive more emphasis.

54. It is important for donors to reinforce the capacity gains that have been made, and not undermine them by a reversion to parallel systems.

### **Quality of Partnership**

55. On balance Uganda supports the contention that PGBS conditionality is qualitatively different from earlier structural adjustment approaches. The role of conditions is mainly as information signals to constituents, and they provide impetus to technical reforms only when they have support within government; it remains clear that conditions do not simply "buy reform" or "make things happen". PGBS used existing sector dialogue structures and budget dialogue rather than create separate ones, which has helped ensure greater consistency and complementarity of different aid instruments.

56. As PGBS is disbursed using government systems, it costs less to administer, and joint PRSC and sector dialogues reduce duplication, although they can be unwieldy. However, recent increases in project support means that transaction costs, in aggregate, may not be falling.

### **Political Governance and Corruption**

57. The interaction between PGBS and other aid modalities is an important influence on the overall effectiveness of aid. The pursuit of mixed project/PGBS strategies in some sectors limits the benefits from PGBS. The GOU and IPs should review the appropriate balance between aid instruments in each sector.

58. "Governance" covers a spectrum of political and technical issues which have become increasingly important in the relationship between the GOU and IPs over recent years. Performance against governance criteria is difficult to measure objectively, but there has been a growing gap between GOU performance and IP expectations (some of which were based on an initial misreading of Ugandan politics).

59. Many aspects of governance, including human rights, are addressed in the PEAPs, but political ownership of the PEAPs has been diminishing. Efforts by bilateral donors to raise governance concerns through a "governance matrix" have had limited success. At the same time, the potential for political crises to undermine the relationship seems to be increasing.

PGBS offers opportunities for engagement with GOU on a range of governance issues, but it cannot buy governance reforms that threaten key political interests.

60. Corruption is especially corrosive of IP support for PGBS, but there has been more success in strengthening basic PFM systems and increasing transparency than in high-profile anti-corruption legislation. It should not be assumed that PGBS is automatically more vulnerable to corruption than other forms of aid. Safeguards in delivery of PGBS are important, but it also offers opportunities to strengthen GOU fiduciary systems.

61. Many of the reforms and capacity improvements supported by PGBS are equally relevant to the accountability requirements of domestic stakeholders as well as IPs, though IPs need to be careful not to overshadow domestic stakeholders.

## **Part D: Synthesis – Overall Conclusions and Recommendations**

### **Overall Assessment**

62. Our overall assessment is positive. PGBS has been an effective means of supporting a relevant national poverty-reduction strategy. It enabled the GOU to expand the delivery of basic services to the poor through decentralised bodies quicker than otherwise would have been the case. There have, on balance, been gains in both allocative and operational efficiency, including a reduction in the transaction costs of utilising aid. PGBS funds, combined with other inputs, have had some important systemic effects on capacity, particularly in strengthening the planning and budgeting system by making discretionary funds available. There were also positive effects on the harmonisation and alignment of aid. The Poverty Action Fund and the system of notional earmarking were very useful devices in demonstrating the purpose and uses of aid without incurring the inefficiencies of prescriptive earmarking. It is highly implausible that the same level and effectiveness of expenditures could have been achieved through other modalities alone.

63. There were elements of good fortune in the timing of PGBS, and in its ability to build on systems for linking policies and budgets that MFPED had already developed. The scale of PGBS flows was important in giving the government budgeting system a decisive influence.

64. PGBS has been more of a partnership than previous conditionality, and has helped to extend GOU ownership across modalities. The focus on government systems has helped to strengthen transparency and raise some fiduciary standards, although fiduciary risks remain high. In hindsight, Uganda's strategy of expanding basic public services paid too little attention to income-generation and to the quality and pro-poor targeting of public services. The pace of expansion inevitably had a cost in efficiency, and put the capacity and the accountability mechanisms of local governments under enormous stress. However, the systems of dialogue and policy review associated with PGBS enable such issues to be confronted, and these early imbalances are beginning to be rectified.

### **Future Challenges**

65. Looking ahead, the rationale for PGBS remains valid, but the political and institutional context has become more difficult. Although PGBS is essentially an instrument for long-term financial and institutional support to a national poverty-reduction strategy, it seems particularly vulnerable in the short term when difficulties arise in the relationships between IPs and an incumbent government. There is a danger that a reversion to project modalities will erode what has already been achieved. Donors and the GOU should review aid strategies more systematically, with sector-by-sector attention to the best fit between different instruments. PGBS instruments themselves need to be adapted to achieve a balance between their role as a

support for long-term development strategies, and the need to be responsive to performance. We make the following recommendations, addressed to both the GOU and donors, for the future design and management of PGBS:

*Safeguarding long-term stability*

- R1 The GOU and IPs should try to ensure that the overall relative shift towards PGBS is maintained.
- R2 IPs should develop safeguards against a rapid and destabilising withdrawal of PGBS.
- R3 IPs should move towards a graduated response mechanism which provides credible incentives for performance and long-term predictability, protected from short-term political cuts.
- R4 IPs should seek forms of graduated response to political concerns that do not undermine the fundamental long-term objectives of PGBS.
- R5 IPs should provide aid information in line with the MTEF and budget cycles and make rolling three-year commitments for GBS and other aid.
- R6 The objectives and uses of PGBS must be clearly signalled alongside other instruments if it is to retain the political support of home constituencies; and aid strategies should ensure that one instrument is not disproportionately more vulnerable than another to short-term cuts.

*Design of aid and PGBS instruments*

- R7 The GOU needs to develop a more elaborate aid policy (beyond the order of preference of aid instruments given in the Partnership Principles), instead highlighting the roles, and the good practice design features, of different aid instruments.
- R8 A set of operational principles and guidelines for PGBS should be developed, and IPs should adhere to these guidelines.
- R9 In this context the balance between instruments in each sector should be reviewed.
- R10 Options such as upstream co-financing of different types of budget support should be considered – e.g. co-financing the PRSC or a single full PGBS instrument, with, ideally, one co-financed sector budget support instrument in each sector.
- R11 The GOU and IPs should agree a common disbursement schedule for all PGBS (one or two tranches a year) and stick to it.

*The focus of dialogue and conditions*

- R12 Continue to develop sector-style processes for strategy and dialogue in cross-cutting areas of reform (e.g. decentralisation, public sector reform, PFM), and in sectors without SWAp processes.
- R13 The PRSC dialogue can be useful in promoting certain CCIs, but should be used sensitively, to avoid overwhelming it.
- R14 IPs should continue to engage on the governance agenda set out in the PEAP, but be realistic about areas where progress is most feasible.
- R15 Continue to increase the profile of productive and private sector issues, including the expansion of growth-promoting initiatives.
- R16 Continue to shift attention in the dialogue towards service quality and income generation.

### *Accountability*

- R17 The GOU and IPs should develop a strategy for building accountability systems to domestic stakeholders which reflect domestic democratic interests yet also satisfy IP demands.
- R18 Without neglecting other aspects of corruption, IPs should persist with a long-term strategy: using the influence that PGBS brings to strengthen financial management, transparency, procurement standards and so forth, at both central and local government levels, in ways that reflect domestic democratic interests as well as IPs' own fiduciary concerns.
- R19 Take care to ensure that policy processes provide room for the voices of domestic constituents, including Parliament as well as civil society, to be heard in the dialogue.

### *Capacity development and focus*

- R20 In the context of "sector" processes in cross-cutting areas such as PFM, decentralisation and public sector reform (see above):
- (a) Develop capacity-building strategies for reform in these areas.
  - (b) Align TA/CB and other institutional support to these strategic plans.
- R21 Increase the relative focus on systemic PFM issues at local government level.
- R22 At sector level, shift the balance more towards building capacity of service providers, not just continued service expansion.
- R23 Actively seek to maximise complementarity of aid inputs (funds, TA/CB) in building capacity.

### *Using PGBS efficiently*

- R24 MFPED should reinvigorate the budget challenge to promote efficiency.
- R25 The definition of pro-poor expenditures should be revisited regularly so they do not stagnate.
- R26 Increase the flexibility of the PAF to facilitate expansion of growth-promoting initiatives
- R27 Assess Uganda's long-term absorptive capacity for aid, and investigate the efficiency of GOU sterilisation choices.
- R28 Ensure that monitoring covers implementation activities and intermediate results as well as final outcomes.

### *Donor selectivity*

- R29 Donors should be sensitive to the role conditions can usefully play, and choose conditions where signals are needed and success is likely.
- R30 Donors should improve their capacity to engage fruitfully in the dialogue, e.g. by:
- (a) focusing on fewer sectors and issues of engagement;
  - (b) ensuring more consistency and coherence in policy across sectors;
  - (c) making more use of delegated cooperation;
  - (d) maintaining staff in post for longer;
  - (e) giving staff early training on the details of how Uganda's systems work;
  - (f) developing greater understanding of the political economy of reforms.

## **VIETNAM EXECUTIVE SUMMARY**

### **Part A: Context and Description of PGBS**

#### **Introduction and Conceptual Framework**

1. Vietnam is one of the seven case studies in a joint evaluation of General Budget Support (GBS). The finance in GBS is usually accompanied by other inputs – a process of dialogue and conditions attached to the transfer, technical assistance (TA) and capacity building, and efforts at harmonisation and alignment by the GBS donors. Other forms of programme aid, including debt relief and balance of payments support, may also be considered as budget support when they generate resources that can be used to finance the government budget, but this evaluation concentrates on so-called “new” or “Partnership” GBS (PGBS). This focuses explicitly on poverty reduction, and it attempts to support nationally developed strategies rather than imposing external policy prescriptions.

2. Although the evaluation focuses on PGBS, it covers the period from 1994–2004 in order to assess whether and how PGBS differs from other variants of budget support. The purpose of the evaluation is to assess to what extent, and under what circumstances, PGBS is efficient and effective for achieving sustainable impacts on poverty reduction and growth. The Vietnam study followed the same methodology as the other country cases. This is fully set out in the Inception Report approved by the Steering Committee for the study, and involves working through “levels of analysis” from the entry conditions at the point that PGBS was adopted, to the inputs made by PGBS, their immediate effects, output, outcomes and impacts on poverty reduction.

3. The main benefits from PGBS are expected to derive from reinforcing countries’ ownership, enhancing the performance and accountability of partner governments’ public finance management (PFM) systems, minimising transaction costs and increasing the predictability of resources and reducing volatility. This study examines these themes as well as assessing the extent to which other effects occur, such as increased harmonisation and alignment, strengthening of policy and processes, supporting macroeconomic stability and increasing the efficiency and effectiveness of service delivery.

#### **The Context for Budget Support in Vietnam**

4. The first step towards the use of PGBS began with the development by the Government of Vietnam (GOV) of an Interim Poverty Reduction Strategy Paper (I-PRSP), which entailed a participatory consultation (national, sub-national and community level) on the contents of the strategy. Following approval of the I-PRSP in 2001, an International Monetary Fund (IMF) Poverty Reduction and Growth Facility (PRGF) arrangement and the first World Bank Poverty Reduction Support Credit (PRSC) were agreed, with which a more partnership-oriented approach to GBS began. The full Comprehensive Poverty Reduction and Growth Strategy (CPRGS) was completed in 2002.

5. PGBS in the form of the PRSC started in 2001 before the CPRGS was finalised and is now in its fourth operation. The PRSC provides funding for the GOV reform programme, while related projects and programmes provide the TA and further funding to support implementation.

6. PRSC1 totalled USD 250m in funding from the World Bank and USD 22.6m in co-financing. The amount involved in PRSC2 was lower at USD 100m from the World Bank and USD 40m from co-financiers, while in PRSC3 the World Bank provided USD 100m and co-funding equalled USD 57m. For PRSC4, USD 100m has been committed by the World Bank

and USD 125m by co-financiers. This represents around 7.5% to 10% of Official Development Assistance (ODA).

7. In addition, various other forms of GBS have been used in the past with the objective of supporting the GOV reform programme. The World Bank Structural Adjustment Credit (SAC) 1 ran from 1994–2000, but only a small percentage of funds were disbursed. The Asian Development Bank (AsDB) funded two quick disbursing loans which, although they were rated as effective in subsequent evaluations, experienced disbursement problems due to failure to adhere to conditionality.

8. In 1994 the IMF put in place a three-year arrangement under the Enhanced Structural Adjustment Facility (ESAF). Under this arrangement, two mid-term reviews were completed broadly as scheduled, but the programme went off-track thereafter. Agreement could not be reached on a third annual arrangement, and the programme expired in 1997. A similar problem occurred with the IMF PRGF which was suspended in 2002 as both sides could not agree on safeguard measures and it expired in 2004. The Japan Bank for International Cooperation (JBIC) also gave quick-disbursing support in the form of the New Miyazawa Initiative which was aimed at alleviating the impacts of the Asian crisis by promoting economic reform and encouraging the development of the private sector.

9. The design of PGBS, and the PRSC in particular, has been influenced by the experience of these previous forms of GBS and the problems which resulted from conditionality and attempting to impose policies that had not been approved through the consensus-based decision-making process. As a result, the PRSC has been based on the government's own reform programme and conditionality has been replaced by "triggers" which are used to decide the level of annual PRSC lending and verify that the overall reform process is moving forward.

### **The Evolution of Partnership GBS in Vietnam**

10. The World Bank-led PRSC began with PRSC1 in 2001; continued with PRSC2 in 2003; and PRSC3 in 2004. PRSCs 4–5 have recently been negotiated. Funding provided through the PRSC is aimed at supporting the CPRGS and the government reform programme. A policy matrix outlines the policy actions that the government agrees to take and a series of triggers are used by the World Bank to evaluate whether they have been met. The policy matrix consists of three pillars. Pillar 1 includes policy actions relating to the transition to a market economy; Pillar 2 social exclusion and environmental sustainability; and Pillar 3 modern governance. Initially PRSC1 was a Structural Adjustment Credit (SAC) style of loan, but as the PRSC has evolved, further pillars were added and its scope was increased. The number of IPs co-financing the PRSC has increased from four in PRSC1 to seven in PRSC3, and 11 in PRSC4.

11. Funds are disbursed directly to the State Bank of Vietnam via a trust fund and are channelled to the state budget and are unearmarked. For the World Bank, the PRSC is on highly concessional loan terms. Depending on the assessment of the speed of reforms being implemented, the World Bank can disburse at low, base or high-case scenarios (PRSCs 1–3 have all been base-case lending). Co-financiers provide non-reimbursable grants or parallel credits on their own concessional terms.

## **Part B: Analysis of PGBS**

### **Relevance of Partnership GBS**

12. The GOV was considered eligible for PGBS as it already had a good record on poverty reduction and a strong track record on macroeconomic management. Between 1993 and 2002 the number of people below the poverty line fell from 53% to 29%. This occurred through economic growth stimulated by "Doi Moi" reforms which began liberalising the economy, while



the government also established targeted poverty programmes aimed at poverty alleviation in the poorest areas and communes. This gave international partners (IPs) confidence in the GOV's ability to manage the economy and implement structural reform with a continued focus on economic growth and poverty reduction.

13. The PRSC itself is organised into three pillars which are drawn from the CPRGS and reflect CPRGS objectives and priorities which are aimed at poverty reduction. The policy actions included within these pillars are designed to reinforce the implementation of policies that are part of the GOV reform programme. The PRSC is designed to provide an additional incentive to undertake these reforms through the provision of funding and policy dialogue to support the design of reforms.

14. The PRSC is based on a two year cycle with discussion and negotiation of the actions to be included in the PRSC policy matrix undertaken the year before the credit is disbursed. The policy actions included in the matrix then have to be undertaken prior to the disbursement of the credit. Not all of the policy actions in the policy matrix are used to judge progress on implementation. A subset of policy actions, usually around 12, are used as indicators of progress and are called triggers. Progress towards meeting these triggers is used to decide the level of World Bank lending for the next annual PRSC. They are rated as either satisfactory, highly satisfactory or partially satisfactory and are used to decide whether lending should be high-case, base-case or low-case lending.

15. The design of the PRSC is appropriate to the Vietnamese context as programme lending with strict conditionality has not worked in the past. The PRSC triggers reflect this experience as they are based on policy actions agreed with the GOV rather than imposed, which are drawn from the GOV's own reform programme. This means that there is GOV ownership of policy and policy dialogue is focused on the "how" rather than the "what" – influencing the *implementation* of policies rather than introducing new ones.

### **Effects on Harmonisation and Alignment**

16. In Vietnam there has been a variety of harmonisation and alignment initiatives, but progress has been slower than anticipated and has focused more on harmonising procedures and alignment with government policy, rather than aligning with government systems. The incentive to engage in this process originated from the need to resolve the disbursement problems presented by projects, the influence of "good practice" in aid management initiatives and an acknowledgement of the benefits of collaboration in a congested aid market.

17. The PRSC has provided a mechanism through which alignment with GOV policy and systems can occur in practice, although there appears to have been less impact on harmonisation. There is evidence of increasing alignment to government policy and systems through the PRSC, as well as through the provision of a common policy framework for IPs to work within. This has increased IP coordination as more co-financiers have joined the PRSC, while IPs can participate in the policy matrix discussions regardless of whether they are a co-financier. It is unlikely that this would have occurred through previous forms of programme aid: although they used GOV systems, they did not result in policy alignment as they were not owned by the GOV and did not provide a coherent policy framework within which IPs could work.

### **Effects on Public Expenditure**

18. The term pro-poor expenditure is frequently used in Vietnam but is rarely defined and is often used in the context of pro-poor growth policies. According to the IMF (2004a) pro-poor expenditure in Vietnam will involve the following three elements: i) reorientation of government spending towards social sectors, basic infrastructure and other activities that benefit the poor;

ii) improvement in the efficiency and targeting of spending in sectors relevant to growth and poverty reduction; and iii) tax reforms that improve both efficiency and equity. According to this definition, the share of total government expenditure devoted to pro-poor spending has increased in recent years with the education sector experiencing an increase from 8.29% of total budget expenditure in 1994 to 17.5% in 2004. The share of health has declined slightly from 4.2% to 3.7% of total expenditure, although as overall total public expenditure has risen considerably, this still represents a large increase in absolute terms.

19. This effect will have been reinforced by some of the “pro-poor” policy actions in the PRSC which need significant financial support for implementation, such as the Health Care Fund for the Poor (HCFP) and increasing funds for education. Therefore, additional PRSC funding allows the GOV to undertake these initiatives which might otherwise be a considerable burden on the budget.

20. The PRSC represents an additional amount of funding for the state budget. This has had an influence on the costs of financing the budget. PRSC funding was equal to 16.4% of the overall fiscal deficit (excluding net lending) in 2001, 18.7% in 2002, 18.8% in 2003 and 43.0% in 2004. Given that the PRSC represents concessionary financing these funds would have lowered budget financing costs.

### **Effects on Planning and Budgeting Systems**

21. The budget process has always been owned by the GOV and until recently there was little transparency in budget planning. Various PRSC policy actions have been aimed at reforming the budget process by clarifying powers and responsibilities and strengthening transparency and accountability in public finance management. These have been reinforced by complementary non-PGBS programmes, such as the Public Financial Management Reform (PFMR) initiative.

22. The PRSC also brings ODA funds on-budget, which enhances GOV ownership and control of the budgetary process. There was considered to be a moderate link between PGBS activities and increased operational efficiency of PFM systems, while there was a weaker link with increased allocative efficiency as many initiatives targeted at this area are reasonably recent and the impact has yet to be seen. However, although there has been much progress in the budgeting process, there has been less transformation in the planning process.

### **Effects on Policies and Policy Processes**

23. Influencing policy processes is difficult due to real and protected ownership in Vietnam, which is reflected in the opaque nature of institutional policy-making processes. For this reason there has been little influence of PGBS on policy-making processes. Influencing policy content is an area that has had some success due to a variety of factors. An already well-established framework for policy dialogue between IPs and the GOV existed due to the CPRGS process, and the PRSC working groups have been able to continue this. The GOV has always appreciated policy advice and has been willing to listen to different points of view and adopt best practice where appropriate. The division of labour in terms of sharing expertise among PRSC co-financiers means that the IP with the most experience in a particular sector has led the associated PRSC working group and used contacts within GOV brought from their experience of working through project modalities. This has resulted in some IP participation in the development of regulatory frameworks and sector policy.

### **Effects on Macroeconomic Performance**

24. The GOV has a good record on macroeconomic stability and fiscal discipline. Controlling inflation and the budget deficit have been GOV policy priorities since the early 1990s and fiscal stability was achieved before significant ODA. Macroeconomic stability would probably have

been maintained regardless of these additional financial inflows and PGBS funds. This is evidenced by GOV targets relating to the budget deficit and other macroeconomic variables that suggest an ongoing commitment to fiscal discipline. However, one role that PGBS does play is to keep the macroeconomic reform programme on track and PGBS funding provides an incentive to do this.

### **Effects on the Delivery of Public Services**

25. The effects of PGBS on service delivery in health and education in particular have been moderate as the PRSC has included a variety of policy actions aimed at increasing the efficiency and effectiveness of pro-poor service delivery. All these policy actions should increase efficiency, but as most of them are in PRSCs 3–5, it is too early to judge their effectiveness, particularly in health. However, in the future the impacts of PGBS on both efficiency and effectiveness could potentially be strong as there is a significant amount of PGBS work being undertaken in both these sectors.

### **Effects on Poverty Reduction**

26. The GOV has a good track record on poverty reduction, which resulted from the economic reform process which significantly increased economic growth. Other significant factors underlying indirect and direct public poverty reduction initiatives include the rapidly increasing volume of public spending, the various progressive pro-poor distribution formulas for public expenditure and the national targeted poverty programmes.

27. PGBS has supported this process, through increasing the use of health and education services by poor groups, while the PRSC has had a strong focus on the macroeconomic environment. Pillar 1 supports the transition to a market economy through a structural reform agenda which should increase economic growth and therefore continue to reduce poverty. This reflects the general consensus regarding the relative importance of economic growth for poverty reduction in Vietnam.

28. The link between PGBS and improving the empowerment of poor people is weaker. The administration of justice has not been effectively addressed through this process, although greater participation and accountability of the government has been achieved to a moderate degree. Democratic accountability and human rights have not been included due to the unwillingness of GOV to engage with IPs on these issues.

### **The Sustainability of PGBS**

29. The PRSC has clearly evolved over its three cycles and the way in which it has changed has reflected the concerns and interests of the co-financiers as new IPs join and flaws in the original design are acknowledged. Coordination is now more of a challenge as the number of co-financiers has increased and some IPs perceive that co-financing the PRSC is a way in which they can further their individual agendas. Thus far, it seems that the design of the PRSC has been sufficiently flexible to not only evolve over time, but also accommodate most IPs' concerns. Despite recent disquiet on the part of some IPs regarding the timetable for consultation and content of the PRSC, the programme appears to be sufficiently robust to resolve these issues. The stock-take undertaken by the World Bank in 2005 shows a willingness to build on lessons learned.

30. Vietnam's accession to middle-income status, which may be as soon as 2010, may have consequences for the PRSC. This will mean that PRSC financing can no longer be provided through soft loans and as a result the GOV may find borrowing on external markets a more attractive option, rather than going through the comparatively time-consuming process of negotiating a PRSC.

## **Part C: Cross-Cutting Issues**

31. Cross-cutting issues have traditionally been addressed through the framework of partnership working groups which were established as part of the CPRGS process. These have had varying degrees of success which are often directly related to government involvement in these groups. Prior to this, other mechanisms for budget support (BS) such as the SAC and PRGF were solely focused on economic reform while issues such as gender and the environment were addressed through projects.

### **Policy CCIs**

32. Gender, the environment and HIV/AIDS have been specifically included within the PRSC process with varying success. The PRSC policy actions relating to the environment have been the most successful and, to a lesser extent, HIV/AIDS initiatives have experienced some success as both have resulted in strategic frameworks being developed. Gender dropped out of the policy matrix after PRSC1 policy actions were unsuccessfully implemented and has been re-included in PRSC5.

### **Public and Private Sector Issues**

33. One of the main aims of the reform programme, and hence the PRSC, has been to support moves to a more liberalised competitive economy, which involved a stronger role for the private sector and less government intervention. Progress has been made in moving towards trade liberalisation and World Trade Organization (WTO) accession and various initiatives have been put in place to level the playing field for private companies through the establishment of laws and regulatory frameworks. State-owned enterprise (SOE) and financial sector reform have made less progress even though a substantial number of policy actions have focused on these two areas. Nevertheless, progress has been made in other areas of Pillar 1, particularly those relating to trade liberalisation and the private sector.

### **Government Capacity and Capacity Building**

34. Weaknesses in government capacity have not been addressed through PGBS as TA and capacity building is not included within the PRSC, but through complementary activities. However, there have been PGBS policy actions aimed at strengthening GOV systems and decentralisation has been included with various policy actions aimed to strengthen and harmonise regulatory frameworks at the provincial level.

### **Quality of Partnership**

35. There is strong government ownership of policy and the reform programme. The CPRGS process was generally acknowledged to be owned by government, which provided the basis for the PRSC policy matrix, while the intention to use the GOV's own Socio-Economic Development Plan (SEDP) instead of the CPRGS for the PRSC 6–10 cycle will strengthen ownership further. Strong government ownership has influenced the design of the PGBS with “triggers” that represent a soft form of conditionality and allow for judgement in their appraisal rather than a strict quantitative analysis. There are differences in perception of the triggers with IPs seeing them more as a method of monitoring progress in the reform programme and GOV perceiving them as conditions, although they acknowledge that they are not as stringent as in the pre-PGBS era. Overall evidence indicated that the PRSC approach incorporated many aspects of the partnership PGBS approach which represented a fundamental difference from previous BS modalities.

36. The PRSC uses government systems to disburse funds, which represents a fall in the transaction costs for government in terms of not having to use multiple procedures. This means that transaction costs are reduced throughout the project implementation cycle, as there is no necessity to use parallel systems which differ from those of the government. However, there are

transaction costs of negotiation but it still likely that these are less than if negotiations took place with individual IPs. As around 10% of ODA is now flowing through the PRSC this should represent a significant gain for government through the subsequent reduction in transaction costs.

### **Political Governance and Corruption**

37. Vietnam has a one-party system and as such is not a pluralist democracy, although recently the GOV has been more responsive to calls for more accountability. PRSC policy actions have aimed at improving the transparency of budget systems, access to information and strengthening of systems which reinforce democratic accountability as a whole.

38. The two main concerns regarding corruption that relate to PGBS are that first, failure to curb corruption could result in the benefits of economic growth accruing to elite sections of society rather than being distributed more equally, which would also undermine the poverty reduction focus of the reform programme. The second is the fiduciary risk element of using GOV systems to channel PRSC funds which may result in leakage if there are not appropriate mechanisms for financial oversight put in place. Anti-corruption measures were included in PRSC3 onwards, but it is too soon to discern whether there is the political will to address these issues.

39. Fiduciary risk involved in PGBS was addressed prior to the introduction of the PRSC and has been on-going through initiatives to strengthen PFM systems. By the time the PRSC began, fiduciary risk was considered to be at an acceptable level in Vietnam. A certain amount of leakage is acknowledged to occur from projects; it appears reasonable to believe that this will be no more or even less from the PRSC. Overall, the PRSC is providing a mechanism to coordinate IP support for anti-corruption measures and reduce fiduciary risk which means that the PRSC is dealing with GOV corruption directly, rather than seeking to bypass it.

## **Part D: Synthesis – Overall Conclusions and Recommendations**

### **Overall Assessment of PGBS in Vietnam**

40. The broad conclusion of the evaluation was that the PRSC in Vietnam represented a successful example of government–donor collaboration, of learning from experience and of achievement of objectives. Given the GOV's good record on poverty reduction, providing the GOV with additional funding through PGBS would also seem to be an efficient and effective way to support poverty reduction.

41. The main effects of the PRSC were found to be from all three main flows of PGBS (funds, institutions and policy) with a strong effect on the policy side, which is not surprising given that PGBS is designed to support the GOV reform programme, through strengthening policies and implementation.

42. In terms of the evaluation framework, there were strong effects at Level 1 inputs to Level 3 outputs, but after this point the linkages become less clear at Level 4 outcomes and Level 5 impacts. At Level 4 there was a moderate link to pro-poor service delivery and appropriate private sector regulatory policies leading to a more conducive growth-enhancing environment. This is then likely to have some impact at Level 5 on income and non-income poverty, although there is not sufficient evidence to link this to a specific PGBS effect with any certainty. This is because the PGBS measures on service delivery are relatively recent and the effects of many policy actions are yet to feed through and become clearer, particularly those relating to sector policies and expenditure frameworks which were introduced in later PRSC cycles.

43. The causality analysis indicates some of the positive outcomes of PGBS in Vietnam which relate to:

- an evolving design of PGBS which has become increasingly pro-poor as the policy agenda has expanded and relevant to the country context;
- increased aid coordination and alignment with GOV policy;
- a strong disbursement record of PGBS in comparison to other aid modalities;
- evidence of lowering of transaction costs from the budget process for government;
- PGBS assisting in strengthening policy and implementation through the dialogue which is a key element of the PRSC;
- evidence of future potential linkages on service delivery and Level 5 poverty impacts.

44. There were also areas of weakness which stem either from issues in the PGBS design or from an inadequate national response to these issues:

- Alignment and disbursement of co-financiers' funds with the GOV budget cycle could be improved.
- There is limited ex post impact analysis of PRSC policy actions and weaknesses in monitoring and evaluation of policy actions.
- There is lack of attention to cross-cutting issues, such as gender.
- Expansion of co-financiers has led to growing difficulties of coordination and cohesion of the process.
- There is a need to follow the World Bank PRSC timetable, which limits the consultation process.
- Consultation is limited to core ministries and co-financiers.
- There is little coordination with other aid modalities.
- There is inadequate attention to TA and capacity building to underpin implementation of policy actions.

### **PGBS in Vietnam – Future Prospects**

45. The study also examines other significant issues that relate to PGBS in Vietnam that are likely to influence the applicability of PGBS and overall aid effectiveness. These are the relationship between PGBS and other aid modalities, decentralisation, the incorporation of the CPRGS into the Socio-Economic Development Plan (SEDP), accession to middle-income country (MIC) status, the pro-poor emphasis of the PRSC and issues regarding the scaling up of aid.

46. There has been a move towards experimenting with other budget support modalities and currently there are various sector budget support initiatives that are being piloted, directed at government poverty programmes and sector budget support. The synergies between PGBS and other forms of BS should be carefully considered as, although they may in some cases be complementary, they have potential to undermine the benefits of the PRSC. This means that there should be careful discussion regarding the risk of fragmentation in the overall aid framework that may result and consideration of the way in which other forms of BS or sector-wide approaches (SWAps) could reinforce each other rather than being perceived as alternatives.

47. The GOV is highly decentralised with around 44% of the budget channelled directly to provinces and an increasing number of decisions made at lower levels of government. One risk of central budget support is that it reinforces central budget control and there may well be a case

for allocation to provincial level budgets. As capacity varies at provincial level and it is at this level that many decisions and policy actions will be undertaken, consideration to capacity building at this level should also be given.

48. Currently the CPRGS acts as a basis for the policy matrix and has represented a comprehensive framework for the PRSC which addresses well the GOV reform programme and IP pro-poor agenda. In the 2006–2010 PRSC cycle the CPRGS will be replaced by the GOV's own five-year SEDP 2006–2010. This is clearly an opportunity to ensure that the PRSC is based directly on GOV policies and priorities, but it implies that there will have to be a reworking of the three pillar policy matrix to reflect the SEDP. It is important that the principles of the PRSC policy matrix remain and that there are follow-up measures included from the previous PRSC cycle.

49. It is likely that Vietnam will graduate from being a low-income to a middle-income country in 2010. This will have implications for the sustainability of the PRSC programme. The next five-year cycle of the PRSC is planned to run from 2006 to 2011 and after this point if Vietnam does become an MIC it may not qualify for concessional funding from the World Bank and after 2010 the World Bank would have to switch to loans at a higher rates. This may be a less attractive option for the GOV as the transaction cost of negotiation and complying with PRSC conditionality may well outweigh the benefits and Vietnam may choose to borrow on external markets. On the other hand, funding through PGBS could provide a mechanism through which a transition to lower levels of aid flows could occur.

50. The amount of funding provided through budget support has increased significantly during the course of the PRSC cycle. Further scaling up of budget support would seem logical on the basis of the benefits that stem from this aid modality. In particular, the more funding that is channelled through budget support should increase aid effectiveness, increase donor harmonisation and alignment and reduce transaction costs. However, this would mean that capacity within GOV, particularly at sector ministry and provincial level, should be strengthened and more attention should be paid to the impact of decentralisation.

51. Analysis of poverty reduction trends suggests that although poverty has been substantially reduced through achieving high rates of economic growth, this trend may not continue in the future. This suggests that the PRSC should pay more attention to the poverty impacts of policy actions in order to ensure that it is achieving its poverty reduction goals. This requires more robust monitoring and evaluation to determine poverty reduction impacts with adjustment to the inputs of the PRSC as required. It may also imply that the PRSC may not be the only aid instrument that is needed to achieve poverty reduction in these harder-to-reach groups. It could be that other aid modalities are appropriate and there needs to be careful consideration of the way in which they complement each other.

## **Recommendations**

52. Based on the assessment of PGBS outlined above, the report recommends that the World Bank and co-financiers should undertake the following:

- R1 Co-financiers should make long-term funding (three year to five year) commitments and provide schedules for disbursement.
- R2 Development of an evaluation system to provide adequate evidence on impact and progress towards achieving outcomes for PRSC 4–5 and for the next PRSC cycle 6–10.
- R3 Formation of a PRSC negotiating team involving other co-financiers and the development of ongoing forums for discussion and consultation that bridge the annual PRSC negotiation cycles.

- R4 Ensure that sufficient analytical work is undertaken to support the shift from using the CPRGS to the SEDP and that it provides an adequate basis for the development of policy actions.
- R5 Establish a set of guiding principles for the PRSC which co-financiers agree to when they join. This could be undertaken in tandem with the recommendation on the development of an overall strategy for budget support.
- R6 Widen the policy dialogue and consultation process to include a wider range of stakeholders – NGOs, business community, sector ministries, non-co-financiers.
- R7 Improve linkages between partnership and PRSC working groups.
- R8 Pay more attention to the inclusion of gender issues and gender mainstreaming within the PRSC policy matrix.
- R9 Ensure that there is stronger mapping of ODA activities to PRSC areas and coordinate more closely with projects linked to the PRSC reform programme.
- R10 Development of a strategy to guide when other forms of budget support can be used to complement PGBS.
- R11 Consider the option of giving provincial budget support within a PGBS framework and undertaking complementary capacity-building programmes at provincial level.
- R12 Include capacity building and TA within PRSC activities or ensure closer coordination with PRSC policy actions and complementary activities being undertaken through other aid modalities.
- R13 Ensure stronger coordination and linkages with other aid modalities undertaking complementary activities to the PRSC to ensure that they are continued after MIC accession and develop a strategy to ensure a continuation of the PRSC process.





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